



# STATE OF TENNESSEE COMPTROLLER OF THE TREASURY



## TENNESSEE BOARD OF REGENTS VOLUNTEER STATE COMMUNITY COLLEGE

### Financial and Compliance Audit Report

For the Years Ended June 30, 2016, and June 30, 2015

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**Justin P. Wilson, Comptroller**



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November 22, 2017

The Honorable Bill Haslam, Governor  
Members of the General Assembly  
The Honorable Flora W. Tydings, Chancellor  
Dr. Jerry Faulkner, President

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Volunteer State Community College, for the years ended June 30, 2016, and June 30, 2015. You will note from the independent auditor's report that unmodified opinions were given on the fairness of the presentation of the financial statements.

Consideration of the internal control over financial reporting and tests of compliance disclosed certain deficiencies, which are detailed in the Findings and Recommendations section of this report. The college's management has responded to the audit findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Sincerely,

Deborah V. Loveless, CPA  
Director

**Audit Report**  
**Tennessee Board of Regents**  
**Volunteer State Community College**  
**For the Years Ended June 30, 2016, and June 30, 2015**

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State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit

**Tennessee Board of Regents**

**Volunteer State Community College**

For the Years Ended June 30, 2016, and June 30, 2015

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## Opinions on the Financial Statements

The opinions on the financial statements are unmodified.

## Audit Findings

**The college used an incorrect term start date to calculate Title IV funds earned by students who withdrew in the spring 2016 semester, resulting in some unearned funds not being returned to the federal government**

Management used January 9, 2016, as the term start date instead of January 19, 2016, when calculating the percentage of the semester the student completed. This resulted in a higher calculated percentage of days completed, which overstated the amount of funds the student earned and understated the amount that should be returned to the federal government (page 62).

**As noted in the prior audit, Volunteer State Community College did not provide adequate internal controls in two areas\***

Volunteer State Community College did not design and monitor effective internal controls in two areas (page 63).

\* This finding is repeated from the prior audit.



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## **Independent Auditor's Report**

The Honorable Bill Haslam, Governor  
Members of the General Assembly  
The Honorable Flora W. Tydings, Chancellor  
Dr. Jerry Faulkner, President

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Volunteer State Community College, an institution of the State University and Community College System of Tennessee, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2016, and June 30, 2015, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements, based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the college's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used

and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Volunteer State Community College, and its discretely presented component unit, as of June 30, 2016, and June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matters***

As discussed in Note 1, the financial statements of Volunteer State Community College, an institution of the State University and Community College System of Tennessee, are intended to present the financial position, the changes in financial position, and the cash flows of only Volunteer State Community College. They do not purport to, and do not, present fairly the financial position of the State University and Community College System of Tennessee as of June 30, 2016, and June 30, 2015, and the changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 15, the college implemented Governmental Accounting Standards Board (GASB) Statement 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, and Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, during the year ended June 30, 2015. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 19; the schedule of Volunteer State Community College's proportionate share of the net pension liability for the Closed State and Higher Education Employee Pension Plan within TCRS on page 54; the schedule of Volunteer State Community College's proportionate share of the net pension asset for the State and Higher Education Employee Retirement Plan within TCRS on page 55; the schedule of Volunteer State Community College's contributions for the Closed State and Higher Education Employee Pension Plan within TCRS on page 56; the schedule of Volunteer State Community College's contributions for the State and Higher Education Employee Retirement Plan within TCRS on page 57; and the other postemployment benefits schedule of funding progress on page 58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited

procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the college's basic financial statements. The supplementary schedules of cash flows – component unit on page 59 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary schedules of cash flows – component unit are the responsibility of the college's management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedules of cash flows – component unit are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2017, on our consideration of the college's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the college's internal control over financial reporting and compliance.



Deborah V. Loveless, CPA  
Director  
September 22, 2017

**Tennessee Board of Regents**  
**VOLUNTEER STATE COMMUNITY COLLEGE**  
**Management's Discussion and Analysis**

This section of Volunteer State Community College's annual financial report presents a discussion and analysis of the financial performance of the college during the fiscal years ended June 30, 2016, and June 30, 2015, with comparative information presented for the fiscal year ended June 30, 2014. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the independent auditor's report, financial statements, and notes. The financial statements, notes, and this discussion are the responsibility of management.

The college has one discretely presented component unit, the Volunteer State Foundation. More detailed information about the foundation is presented in Note 16 to the financial statements. This discussion and analysis focuses on the college and does not include the foundation.

**Overview of the Financial Statements**

The financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for accounting and external financial reporting for public colleges and universities. The financial statements are presented on a consolidated basis to focus on the college as a whole. The full scope of the college's activities is considered to be a single business-type activity, and accordingly, is reported within a single column in the basic financial statements.

The college's financial report includes the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows. Notes to the financial statements are also presented to provide additional information that is essential to a full understanding of the financial statements.

**The Statement of Net Position**

The statement of net position is a point-in-time financial statement. The statement of net position presents the financial position of the college at the end of the fiscal year. To aid the reader in determining the college's ability to meet immediate and future obligations, the statement includes all assets, liabilities, deferred outflows/inflows of resources, and net position of the college and segregates the assets and liabilities into current and noncurrent components. Current assets are those that are available to satisfy current liabilities, inclusive of assets that will be converted to cash within one year. Current liabilities are those that will be paid within one year. The statement of net position is prepared under the accrual basis of accounting; assets and liabilities are recognized when goods or services are provided or received despite when cash is actually exchanged.

From the data presented, readers of the statement are able to determine the assets available to continue the operations of the college. They are also able to determine how much the college owes

vendors, lenders, and others. Net position represents the difference between the college's assets and liabilities, along with the difference between deferred outflows and deferred inflows of resources, and is one indicator of the college's current financial condition.

The statement of net position also indicates the availability of net position for expenditure by the college. Net position is divided into three major categories. The first category, net investment in capital assets, represents the college's total investment in property, plant, and equipment, net of outstanding debt obligations related to these capital assets. To the extent debt or deferred inflows of resources has been incurred but not yet expended for capital assets, such amounts are not included. The next category is restricted net position, which is sub-divided into two categories, nonexpendable and expendable. Nonexpendable restricted net position includes endowment and similar resources whose use is limited by donors or other outside sources and as a condition of the gift, the principal is to be maintained in perpetuity. Expendable restricted net position is available for expenditure by the college but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the resources. The final category is unrestricted net position. Unrestricted net position is available to the college for any lawful purpose of the college.

The following table summarizes the college's assets, liabilities, deferred outflows/inflows of resources, and net position at June 30, 2016; June 30, 2015; and June 30, 2014.

<b>Condensed Statements of Net Position</b> <b>(in thousands of dollars)</b>			
	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Assets:</b>			
Current assets	\$23,887	\$21,622	\$18,731
Capital assets, net	72,917	56,124	45,268
Other assets	11,129	11,448	16,532
<b>Total Assets</b>	<b>107,933</b>	<b>89,194</b>	<b>80,531</b>
<b>Deferred Outflows of Resources:</b>			
Deferred Outflows Related to Pensions	2,333	1,724	-
<b>Total Deferred Outflows of Resources</b>	<b>2,333</b>	<b>1,724</b>	<b>-</b>
<b>Liabilities:</b>			
Current liabilities	12,017	11,151	11,190
Noncurrent liabilities	9,044	6,448	3,419
<b>Total Liabilities</b>	<b>21,061</b>	<b>17,599</b>	<b>14,609</b>
<b>Deferred Inflows of Resources:</b>			
Deferred Inflows Related to Pensions	1,220	4,327	-
<b>Total Deferred Inflows of Resources</b>	<b>1,220</b>	<b>4,327</b>	<b>-</b>
<b>Net Position:</b>			
Net investment in capital assets	72,917	56,124	45,268
Restricted – nonexpendable	126	125	124

Restricted – expendable	362	275	272
Unrestricted	14,580	12,468	20,258
<b>Total Net Position</b>	<b>\$87,985</b>	<b>\$68,992</b>	<b>\$65,922</b>

#### Comparison of Fiscal Year 2016 to Fiscal Year 2015

- In fiscal year 2016, current assets increased \$2,265,806. Cash and cash equivalents at June 30, 2016, increased \$1,590,498. This increase is primarily caused by an increase of \$2,038,734.47 in the LGIP balance. The Tennessee Colleges of Applied Technology (TCAT) in Hartsville and Livingston have an increase in cash of \$119,210. Accounts receivable increased \$411,525 because of receivables related to the Humanities Building project. Prepaid expense increased \$191,920 as more licensing and maintenance agreements were prepaid in fiscal year 2016. The largest asset within this category is cash and cash equivalents in the amount of \$16,208,433, of which \$6,017,742 is held by Volunteer State Community College as the custodian for TCAT Hartsville and TCAT Livingston.
- Capital assets consist of land, buildings, projects in progress, equipment, other improvements, intangible assets, and library holdings. During 2016, net capital assets increased \$16,793,383, including depreciation expense of \$2,239,421. The major addition in fiscal year 2016 was the construction in progress on the Humanities Building, slated to open in fiscal year 2017. The Humanities Building was funded by a combination of state capital appropriations, donor gifts, and campus funds. The other projects were funded by campus funds set aside in plant funds for special projects.
- Other noncurrent assets decreased by \$319,753 during fiscal year 2016. Noncurrent cash and cash equivalents are primarily set aside for plant funds and renewal and replacement funds. Plant funds for the Wallace South Building and building improvements decreased a combined \$466,092.
- Deferred outflows related to pensions increased \$608,563 during fiscal year 2016 primarily because of the difference between the expected and actual actuarial assumptions.
- In 2016, current liabilities increased \$866,053. Unearned revenue increased by \$112,745 due to an increase in enrollment for summer semester 2016 compared to summer semester 2015. Accounts payable increased by \$522,671 primarily due to payables to Tennessee Technological University for the college's share of operating expenses associated with the Cookeville Higher Education Center. Deposits held in custody for others increased by \$124,965 because of an increase in TCAT Hartsville and TCAT Livingston cash.
- Noncurrent liabilities increased \$2,595,563 during fiscal year 2016. This was caused by an increase of \$2,598,821 in net pension liability.
- Deferred inflows related to pensions decreased \$3,106,832 during fiscal year 2016 primarily because of the difference between projected and actual earnings on pension plan investments.

- The portion of net position's net investment in capital assets includes land, buildings, projects in progress, equipment, other improvements, intangible assets, and library holdings. During 2016, the net investment in capital assets increased by \$16,793,383. The major addition of \$18,252,028 was in the construction in progress for the Humanities Building.
- Unrestricted net position increased by \$2,112,590 in fiscal year 2016. Overall, net position for the college increased by \$18,993,215. Of this amount, approximately \$16.8 million increased net investment in capital assets due to the reasons stated above, while almost all the remaining amount increased unrestricted net position.

#### Comparison of Fiscal Year 2015 to Fiscal Year 2014

- In fiscal year 2015, current assets increased \$2,890,293. Cash and cash equivalents at June 30, 2015, increased \$2,824,825. Current cash in auxiliary enterprises increased \$277,245. The Tennessee Colleges of Applied Technology (TCAT) in Hartsville and Livingston have an increase in cash of \$432,876. A shift in the allocation to current from noncurrent as expenditures was made using plant funds increased current assets by \$459,378. Accounts receivable decreased \$317,683 because of less student tuition charged to third party vendors in the summer semester. Prepaid expense increased \$329,923 as more licensing and maintenance agreements were prepaid in fiscal year 2015. The largest asset within this category is cash and cash equivalents in the amount of \$14,617,935, of which \$5,898,532 is held by Volunteer State Community College as the custodian for TCAT Hartsville and TCAT Livingston.
- Capital assets consist of land, buildings, projects in progress, equipment, other improvements, intangible assets, and library holdings. During 2015, net capital assets increased \$10,855,787, including depreciation expense of \$2,161,440. The major additions in fiscal year 2015 were the transfer of the Springfield/Highland Crest Building and land from Robertson County and the City of Springfield to the college; the purchase of additional land at Springfield/Highland Crest campus; and construction in progress on the Humanities Building and Mattox Building HVAC. The Springfield Highland Crest Building and land was primarily funded by a donation from the City of Springfield and Robertson County. The Humanities Building is a combination of state and campus funds. The other projects were funded by campus funds set aside in plant funds for special projects.
- Other noncurrent assets, made up of cash and cash equivalents, decreased by \$5,083,671 during fiscal year 2015. Noncurrent cash and cash equivalents are primarily set aside for plant funds and renewal and replacement funds. Plant funds for the Humanities Building, the Wallace South Building, and computer equipment renewal and replacement fund decreased a combined \$2,811,431. Other projects funded from renewal and replacement include furniture, infrastructure wiring, and maintenance equipment.
- In 2015, current liabilities decreased \$38,946. Unearned revenue decreased by \$472,452 due to a decrease in enrollment for summer semester 2015 compared to summer semester 2014. Deposits held in custody of others increased by \$438,350 primarily because of an increase in TCAT Hartsville and TCAT Livingston cash.

- Noncurrent liabilities increased \$3,029,114 during fiscal year 2015. This was caused by the recording of the \$3,003,037 net pension liability required by the implementation of GASB 68.
- The portion of net position's net investment in capital assets includes land, buildings, projects in progress, equipment, other improvements, intangible assets, and library holdings. During 2015, net investment in capital assets increased by \$10,855,787. The major additions were the transfer of the Springfield/Highland Crest Building and land from Robertson County and the City of Springfield to the college for \$6,016,887 and the purchase of additional land at Springfield/Highland Crest campus for \$119,425. In addition, the construction in progress on the Humanities Building was \$4,955,389.
- Unrestricted net position decreased by \$8,887,939 in fiscal year 2015. The decrease was primarily caused by the cumulative effect of the change in accounting principle required for implementation of GASB 68 as discussed in Note 15.

### **The Statement of Revenues, Expenses, and Changes in Net Position**

The statement of revenues, expenses, and changes in net position presents the results of operations for the fiscal year. Revenues and expenses are recognized when earned or incurred, regardless of when cash is received. The statement indicates whether the college's financial condition has improved or deteriorated during the fiscal year. The statement presents the revenues received by the college, both operating and non-operating; the expenses paid by the college, operating and non-operating; and any other revenues, expenses, gains, or losses received or spent by the college.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the college. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the college. Non-operating revenues are revenues received for which goods and services are not provided directly to the payor. Although Volunteer State Community College is dependent upon state appropriations and gifts to fund educational and general operations, under GASB standards these funding sources are reported as non-operating revenues, as is investment income. As a result, the college has historically reported an excess of operating expenses over operating revenues, resulting in an operating loss. Therefore, the "increase in net position" is more indicative of overall financial results for the year.

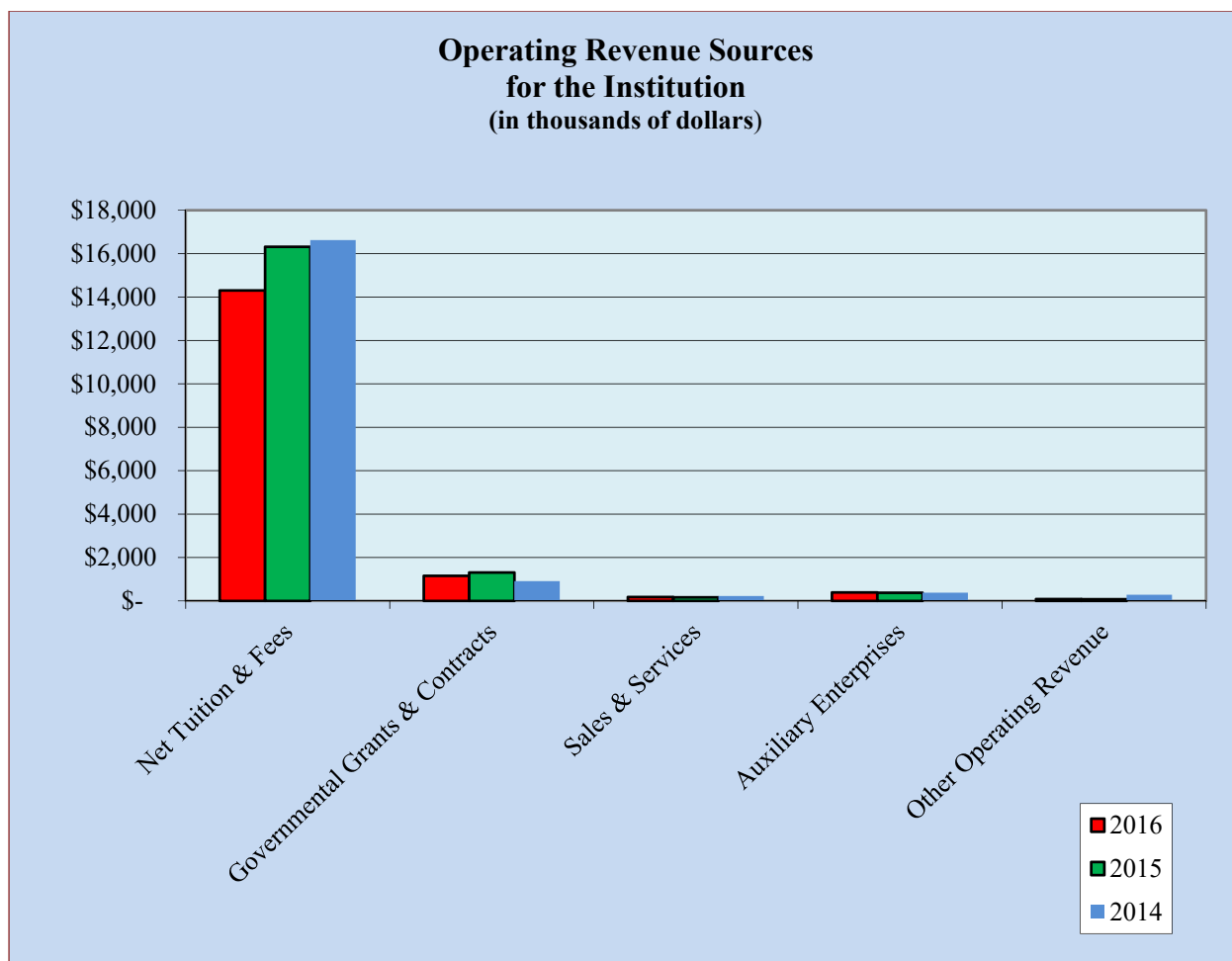
A summary of the college's revenues, expenses, and changes in net position for the years ended June 30, 2016; June 30, 2015; and June 30, 2014, follows.

<b>Condensed Statements of Revenues, Expenses, and Changes in Net Position</b> <b>(in thousands of dollars)</b>			
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Operating revenues	\$ 16,111	\$ 18,237	\$ 18,410
Operating expenses	54,429	50,112	52,203
Operating loss	(38,318)	(31,875)	(33,793)
Non-operating revenues and expenses	38,467	32,340	32,884
Income (loss) before other revenues, expenses, gains, or losses	149	465	(909)
Other revenues, expenses, gains, or losses	18,844	9,487	4,212
Increase in net position	18,993	9,952	3,303
Net position at beginning of year	68,992	65,922	62,619
Cumulative effect of change in accounting principle	-	(6,882)	-
Net position at end of year	\$ 87,985	\$ 68,992	\$ 65,922

### Operating Revenues

The following summarizes the operating revenues by source that were used to fund operating activities for the last three fiscal years:

<b>Operating Revenue Sources</b> <b>(in thousands of dollars)</b>			
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Net tuition & fees	\$14,307	\$16,315	\$16,623
Governmental grants & contracts	1,158	1,307	906
Sales & services	168	165	223
Auxiliary enterprises	391	375	373
Other operating revenue	87	75	285
<b>Total</b>	<b>\$16,111</b>	<b>\$18,237</b>	<b>\$18,410</b>



#### Comparison of Fiscal Year 2016 to Fiscal Year 2015

- Tuition and fees (net of scholarship allowances of \$13,214,969) account for approximately 89% of the college's operating revenues. Rates for tuition and fees are recommended by the Tennessee Higher Education Commission and approved by the Tennessee Board of Regents. Revenues from tuition and fees fluctuate depending upon enrollments. Net tuition and fees, which is tuition and fee revenue less the scholarship allowance, decreased \$2,383,627.
- Gross tuition and fees increased \$1,558,795. The fall and spring term maintenance fees increased \$2,587,257, which was caused from a 3.4% increase in in-state tuition and an enrollment increase due to Tennessee Promise. The application fee was approved for elimination at the Tennessee Board of Regents March 2016 quarterly meeting and collection was stopped in April 2016, which caused a \$53,545 decrease in application fee revenue. Enrollment in Tennessee eLearn (RODP) courses decreased, which caused a \$117,201 decrease in revenue. The elimination of the Pearson lab fees for remedial courses caused a \$155,411 decrease in revenue. Out-of-state maintenance fees decreased by \$272,426 primarily due to a decrease in the students being sponsored by the Saudi Arabian Cultural Mission. Tuition and fee revenue was reduced by \$90,919 for the reclassification from recording bad debt expense to recording a contra

revenue adjustment for an allowance for bad debt. Because of the increase in Pell, SEOG, TSAA, and Hope awards, along with additional scholarships to Tennessee Promise students, the scholarship allowance increased by \$3,942,423.

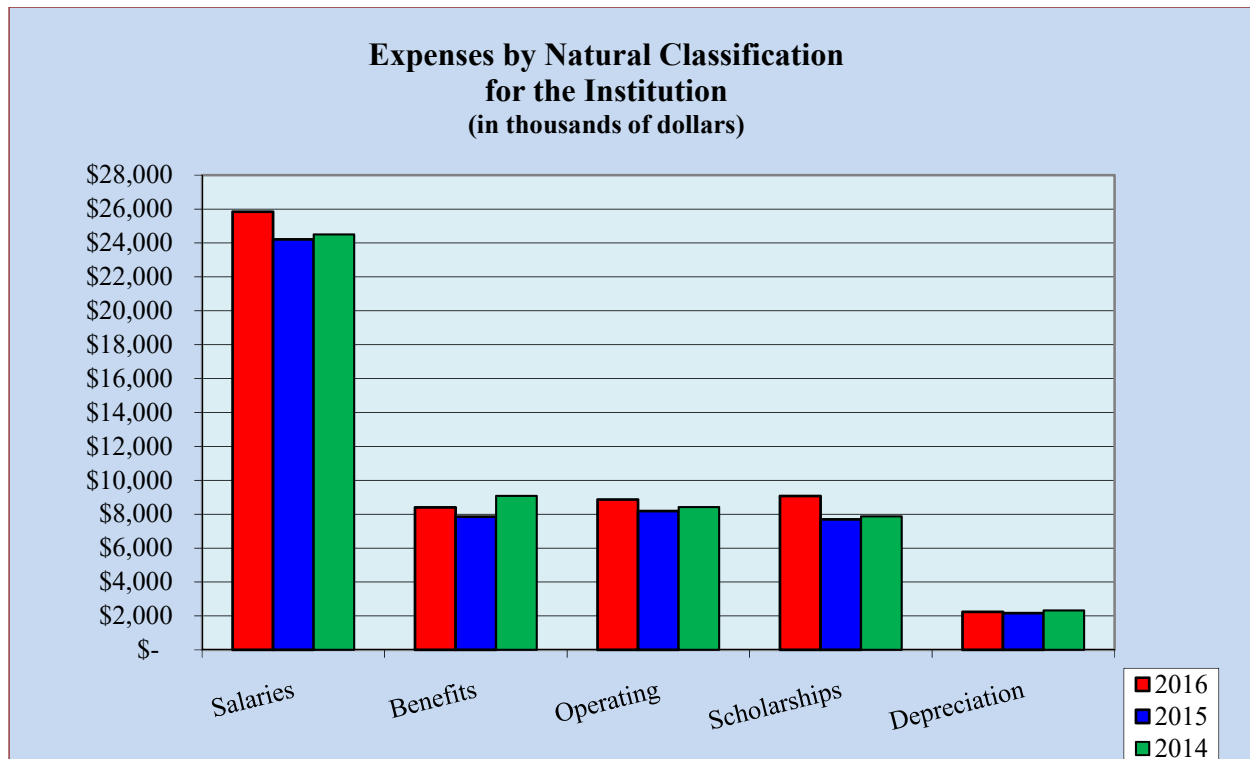
- Governmental grants and contracts account for approximately 7% of the college's total operating revenues in 2016 and decreased by \$148,959. The majority of the decrease was in the Rx TN Consortia grant and the Perkins grant.
- The college's bookstore operation was leased to Follett Higher Education Group and the college's food service operation was leased to First Choice Foods during 2016. The commission earned increased by \$15,655 and is approximately 2% of operating revenues in 2016. The commission increase was from food service operations that benefited from an enrollment increase due to Tennessee Promise.
- Other operating revenue increased \$12,310 in 2016. The increase is due to the first full year of reimbursement from Austin Peay State University for their pro rata share of the operating costs of the Springfield/Highland Crest campus.

#### Comparison of Fiscal Year 2015 to Fiscal Year 2014

- Tuition and fees (net of scholarship allowances of \$9,272,546) account for approximately 90% of the college's operating revenues. Rates for tuition and fees are recommended by the Tennessee Higher Education Commission and approved by the Tennessee Board of Regents. Revenues from tuition and fees fluctuate depending upon enrollments. Net tuition and fees increased \$67,696 due to an increase in the tuition rate of 5.8% for in-state students in fiscal year 2015, which was offset by a decrease in enrollment.
- Governmental grants and contracts account for approximately 7% of the college's total operating revenues in 2015 and increased by \$400,973. The majority of the increase was in the Rx TN Consortia grant, the Perkins grants, and the Adult Education grant.
- The college's bookstore operation was leased to Follett Higher Education Group and the college's food service operation was leased to First Choice Foods during 2015. The commission earned increased by \$2,913 and is approximately 2% of operating revenues in 2015.
- Other operating revenue decreased \$210,350 in 2015. The decrease is primarily due to the City of Springfield and Robertson County no longer providing funding for the operating costs of the Springfield/Highland Crest campus.

#### Operating Expenses

Operating expenses may be reported by nature or function. The college has chosen to report the expenses in their natural classification on the statement of revenues, expenses, and changes in net position and has displayed the functional classification in the notes to the financial statements. The following summarizes the operating expenses by natural classifications for the last three fiscal years:



#### Comparison of Fiscal Year 2016 to Fiscal Year 2015

- Salary expenses are 48% of the total operating budget and increased by \$1,629,229 in fiscal year 2016 due to a 3% pay increase and personnel additions in faculty and academic support areas to support the enrollment increase.
- Benefit expense accounts for approximately 16% of the total operating budget and increased \$548,731 in fiscal year 2016. The increase is due to an increased cost of benefits and personnel additions in faculty and academic support areas.
- For 2016, utilities, supplies, and other services (operating) expenses account for over 16% of the total operating expenses, increasing by \$681,255. This increase is attributable to the college's share of the operating costs for the Cookeville Higher Education Center, which was \$332,941, and the \$43,700 for the new salary study and plan. This line item consists of expenditures for items such as supplies; utilities; communications; shipping; maintenance and repairs; bad debt expense; printing; travel; professional and administrative services; and rental and insurance.
- Scholarship expenses comprise about 17% of operating expenses. They are attributable to the Federal Pell Grant and Supplemental Educational Opportunity Grant (SEOG) programs, Tennessee Promise, Tennessee Student Assistance Awards (TSAA), Tennessee Education Lottery Scholarship Program, and private scholarships. In 2016, net scholarship expenditures increased by \$1,379,285 because of an increase in enrollment due to Tennessee Promise.

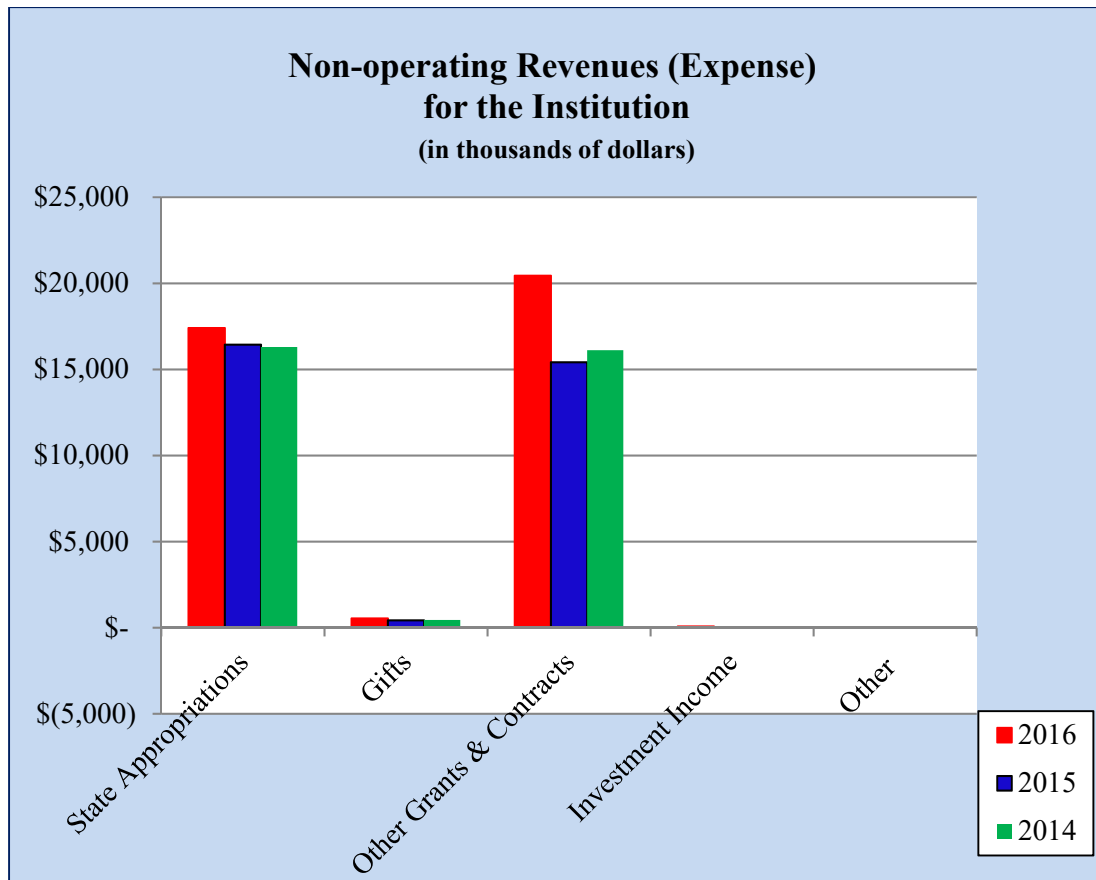
- Depreciation expense increased \$77,980 in fiscal year 2016. This is due to the commencement of amortization in fiscal year 2016 of the Wallace South Health Science Building.

#### Comparison of Fiscal Year 2015 to Fiscal Year 2014

- Salary expenses are 48% of the total operating budget and decreased by \$284,536 in fiscal year 2015 due to there being no bonus paid in fiscal year 2015. Salary expense for the bonus was \$357,367 in fiscal year 2014.
- Benefit expense accounts for approximately 15% of the total operating budget and decreased \$1,233,565 in fiscal year 2015. The decrease is due to the implementation of GASB 68 for pensions, which required a reduction of pension expense to establish a deferred outflow of \$1,724,239.
- Scholarship expenses comprise about 15% of operating expenses. They are primarily attributable to the Federal Pell Grant and Supplemental Educational Opportunity Grant (SEOG) programs, Tennessee Student Assistance Awards (TSAA), Tennessee Education Lottery Scholarship Program, and private scholarships. In 2015, net scholarship expenditures decreased by \$174,626 primarily because of a decrease in enrollment.
- Depreciation expense decreased \$163,179 in fiscal year 2015. This is partially caused by a TBR policy change requiring the estimated life of buildings to change from 40 to 60 years.

#### Non-operating Revenues and Expenses

Certain revenue sources that the college relies on to provide funding for operations, including state noncapital appropriations, certain gifts and grants, and investment income, are defined by the GASB as non-operating. Non-operating expenses include capital financing costs and other costs related to capital assets. The following summarizes the college's non-operating revenues and expenses for the last three fiscal years:



#### Comparison of Fiscal Year 2016 to Fiscal Year 2015

- State appropriations are requested by the Tennessee Higher Education Commission based on funding formula calculations. The State of Tennessee General Assembly determines the final state appropriations. State appropriations account for approximately 45% of the college's total non-operating revenues during 2016. State appropriations increased \$969,438 in 2016.
- Grants and contracts, including governmental grants and contracts, account for approximately 53% of total non-operating revenues in 2016. A large percentage of the total grants and contracts revenue is restricted for student aid programs such as Pell Grant, SEOG, Tennessee Education Lottery Scholarship Program, and the Tennessee Promise Program. Grants and contracts increased \$5,028,092. The increase is the result of the increase in enrollment and a greater percentage of students eligible for financial aid, particularly the Tennessee Promise Program.
- Gifts to the college increased by \$92,891. The increase is attributable to \$79,732 in cash received by the college for the upkeep and maintenance of the Spurlock Property.

#### Comparison of Fiscal Year 2015 to Fiscal Year 2014

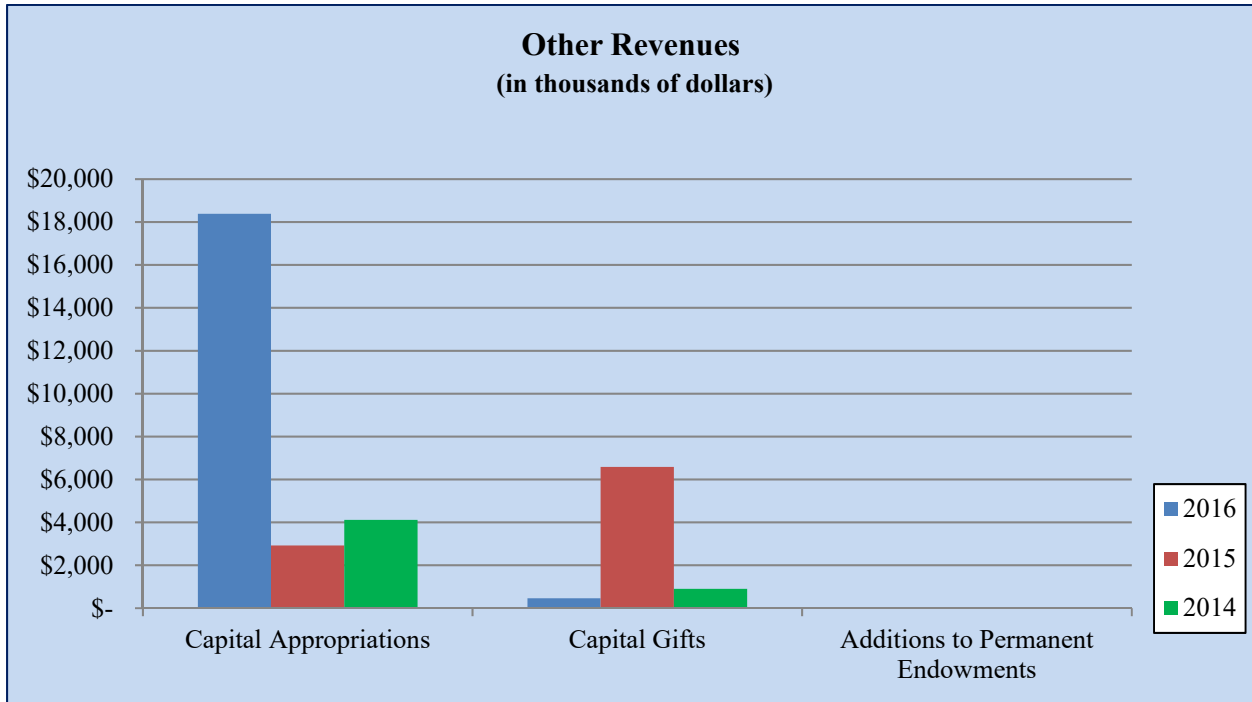
- State appropriations are requested by the Tennessee Higher Education Commission based on funding formula calculations. The State of Tennessee General Assembly

determines the final state appropriations. State appropriations account for approximately 43% of the college's total non-operating revenues during 2015. State appropriations increased \$139,144 in 2015.

- Grants and contracts, including governmental grants and contracts, account for approximately 40% of total non-operating revenues in 2015. A large percentage of the total grants and contracts revenue is restricted for student aid programs such as Pell Grant, SEOG, and the Tennessee Education Lottery Scholarship Program. Grants and contracts decreased \$690,268. The decrease is primarily a result of the decrease in enrollment.

### Other Revenues

This category is composed of state appropriations for capital purposes, capital grants and gifts, and additions to permanent endowments. These amounts were as follows for the last three fiscal years:



### Comparison of Fiscal Year 2016 to Fiscal Year 2015

- Capital appropriations to the college increased by \$15,463,019 in fiscal year 2016. The increase was due to the construction of the Humanities Building, slated to open in fiscal year 2017. The Humanities Building was funded by a combination of state capital appropriations, donor gifts, and campus funds.
- Capital gifts to the college decreased by \$6,123,189 in fiscal year 2016. The decrease was caused by the fiscal year 2015 transfer of the Springfield/Highland Crest Building and land from Robertson County and the City of Springfield to the college for \$6,016,887. In addition, the decrease was offset by a capital gift from the foundation. In 2013, the foundation started a capital campaign for the Humanities Building. The

college received gifts of \$430,000 and \$420,000 in fiscal year 2016 and fiscal year 2015, respectively, for the Humanities Building project.

#### Comparison of Fiscal Year 2015 to Fiscal Year 2014

- Capital appropriations decreased \$393,329 during fiscal year 2015. The fiscal year 2015 capital appropriations were primarily for the Humanities Building. Fiscal year 2014 was the final year for capital appropriations for the Wallace Health Sciences Building-South.
- Capital gifts to the college increased by \$5,669,364 in fiscal year 2015. The increase was caused by the transfer of the Springfield/Highland Crest Building and land from Robertson County and the City of Springfield to the college for \$6,016,887.

### **Capital Assets and Debt Administration**

#### Capital Assets

Volunteer State Community College had \$72,916,981 invested in capital assets, net of accumulated depreciation of \$30,286,285 at June 30, 2016; \$56,123,598 invested in capital assets, net of accumulated depreciation of \$28,222,575 at June 30, 2015; and \$45,267,811 invested in capital assets, net of accumulated depreciation of \$26,259,185 at June 30, 2014. Depreciation charges totaled \$2,239,421; \$2,161,440; and \$2,324,619 for the years ended June 30, 2016; June 30, 2015; and June 30, 2014, respectively.

<b>Schedule of Capital Assets, Net of Depreciation (in thousands of dollars)</b>			
	<b>2016</b>	<b>2015</b>	<b>2014</b>
Land	\$3,495	\$3,487	\$2,565
Land improvements & infrastructure	7,016	7,670	7,241
Buildings	33,969	27,358	22,685
Equipment	3,734	3,791	3,123
Intangible assets	110	125	239
Library holdings	218	251	272
Projects in progress	24,375	13,442	9,142
<b>Total</b>	<b>\$72,917</b>	<b>\$56,124</b>	<b>\$45,267</b>

#### Fiscal Year 2016 Significant Additions or Retirements

Significant additions to capital assets occurred in fiscal year 2016. These additions were from completion of the Allied Health Building and the progress on the Humanities Building. At June 30, 2016, outstanding commitments under construction contracts totaled \$6,078,674 for various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund \$5,079,559 of these costs.

### Fiscal Year 2015 Significant Additions or Retirements

Significant additions to capital assets occurred in fiscal year 2015. These additions were from the transfer of the Highland Crest Building and land to the college from the City of Springfield and Robertson County; the purchase of land adjoining the Highland Crest campus; and the progress on the Humanities Building. At June 30, 2015, outstanding commitments under construction contracts totaled \$19,916,098 for various renovations and repairs of buildings and infrastructure. Future state capital outlay appropriations will fund \$19,729,069 of these costs.

More detailed information about the college's capital assets is presented in Note 5 to the financial statements.

### Debt

The college had no debt outstanding at June 30, 2016; June 30, 2015; and June 30, 2014, respectively.

### **Economic Factors That Will Affect the Future**

In fiscal year 2016 the college had its first full complement of Tennessee Promise students with both first and second year students attending. These students enjoy the benefit of a scholarship that pays all mandatory fees and tuition as long as the students fulfill the demands of the scholarship program. This program has provided solid enrollment for the college and the future of the Tennessee Promise appears bright.

During fiscal year 2016, new legislation was passed, entitled the Focus on College and University Success (FOCUS) Act. This will sharpen the statewide focus on achievement at community colleges and their efforts to attain the statewide goals in the Drive to 55 campaign.

One final factor impacting the college's future is the teaching site at Cookeville Higher Education Campus (CHEC). The college began providing instruction at CHEC in the current fiscal year and became the sole provider of first- and second-year classes starting in the fall of 2016. This site has boosted overall enrollment for the college.

Finally, the college has a construction project underway to build a Humanities Building. This \$30 million construction effort is expected to be completed in the summer of 2016 so that fall classes may be taught there in 2016. This structure is more than 80,000 square feet and will provide a significant increase in classroom capacity.

## **Requests for Information**

This financial report is designed to provide a general overview for all those with an interest in the college's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to:

Ms. Elizabeth C. Cooksey, CPA  
Vice President for Business & Finance  
Volunteer State Community College  
1480 Nashville Pike  
Gallatin, TN 37066  
(615) 230-3560

**Tennessee Board of Regents**  
**VOLUNTEER STATE COMMUNITY COLLEGE**  
**Statements of Net Position**  
**June 30, 2016, and June 30, 2015**

	Volunteer State Community College		Component Unit - Volunteer State Community College Foundation	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
<b>Assets</b>				
Current assets:				
Cash and cash equivalents (Notes 2 and 16)	\$ 16,208,432.68	\$ 14,617,934.62	\$ 963,727.44	\$ 605,725.32
Investments (Notes 3 and 16)	4,000,000.00	4,000,000.00	-	-
Accounts, notes, and grants receivable (net) (Note 4)	2,633,572.88	2,222,048.31	-	1,537.39
Due from State of Tennessee	161,559.15	72,362.24	-	-
Due from VSCC Foundation	8,282.55	19,554.84	-	-
Pledges receivable (net) (Note 16)	-	-	47,390.00	421,987.60
Inventories	877.85	2,038.57	-	-
Prepaid expenses	872,816.63	680,896.44	-	200.00
Accrued interest	1,797.44	6,698.62	-	-
<b>Total current assets</b>	<b>23,887,339.18</b>	<b>21,621,533.64</b>	<b>1,011,117.44</b>	<b>1,029,450.31</b>
Noncurrent assets:				
Cash and cash equivalents (Notes 2 and 16)	11,115,879.13	11,448,166.78	-	-
Investments (Notes 3 and 16)	-	-	4,594,717.45	4,925,786.82
Net pension asset (Note 9)	12,534.37	-	-	-
Pledges receivable (net) (Note 16)	-	-	28,112.53	55,861.24
Capital assets (net) (Note 5)	72,916,981.32	56,123,597.86	-	-
Other assets	-	-	14,369.77	14,163.52
<b>Total noncurrent assets</b>	<b>84,045,394.82</b>	<b>67,571,764.64</b>	<b>4,637,199.75</b>	<b>4,995,811.58</b>
<b>Total assets</b>	<b>107,932,734.00</b>	<b>89,193,298.28</b>	<b>5,648,317.19</b>	<b>6,025,261.89</b>
<b>Deferred outflows of resources</b>				
Deferred outflows related to pensions (Note 9)	2,332,802.71	1,724,239.40	-	-
<b>Total deferred outflows of resources</b>	<b>2,332,802.71</b>	<b>1,724,239.40</b>	<b>-</b>	<b>-</b>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable (Note 6)	2,361,954.22	1,839,283.53	5,091.50	322.40
Accrued liabilities	845,682.23	812,349.24	-	-
Due to grantor	9,590.20	-	-	-
Due to State of Tennessee	632,707.30	601,326.17	-	-
Due to VSCC	-	-	8,282.55	19,554.84
Unearned revenue	1,472,280.67	1,359,536.05	21,700.00	4,000.00
Compensated absences (Note 7)	526,350.85	495,982.67	-	-
Deposits held in custody for others	6,167,651.73	6,042,686.60	-	-
Other liabilities	1,000.00	-	-	-
<b>Total current liabilities</b>	<b>12,017,217.20</b>	<b>11,151,164.26</b>	<b>35,074.05</b>	<b>23,877.24</b>
Noncurrent liabilities:				
Net OPEB obligation (Note 10)	2,458,928.07	2,399,576.69	-	-
Net pension liability (Note 9)	5,601,857.97	3,003,037.00	-	-
Compensated absences (Note 7)	982,730.16	1,045,339.85	-	-
<b>Total noncurrent liabilities</b>	<b>9,043,516.20</b>	<b>6,447,953.54</b>	<b>-</b>	<b>-</b>
<b>Total liabilities</b>	<b>21,060,733.40</b>	<b>17,599,117.80</b>	<b>35,074.05</b>	<b>23,877.24</b>
<b>Deferred inflows of resources</b>				
Deferred inflows related to pensions (Note 9)	1,220,078.00	4,326,910.00	-	-
<b>Total deferred inflows of resources</b>	<b>1,220,078.00</b>	<b>4,326,910.00</b>	<b>-</b>	<b>-</b>
<b>Net position</b>				
Net investment in capital assets	72,916,981.32	56,123,597.86	-	-
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	125,518.04	124,694.13	2,164,849.26	2,133,248.23
Expendable:				
Scholarships and fellowships	34,869.11	31,407.91	1,811,313.82	1,824,153.62
Instructional department uses	33,376.79	33,529.79	31,605.26	31,605.26
Loans	118.13	118.13	-	-
Capital projects	-	-	-	314,748.05
Pension	12,534.37	-	-	-
Other	280,762.68	210,187.00	20,751.91	20,751.91
Unrestricted	14,580,564.87	12,467,975.06	1,584,722.89	1,676,877.58
<b>Total net position</b>	<b>\$ 87,984,725.31</b>	<b>\$ 68,991,509.88</b>	<b>\$ 5,613,243.14</b>	<b>\$ 6,001,384.65</b>

The notes to the financial statements are an integral part of this statement.

**Tennessee Board of Regents**  
**VOLUNTEER STATE COMMUNITY COLLEGE**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**For the Years Ended June 30, 2016, and June 30, 2015**

	Volunteer State Community College		Component Unit - Volunteer State Community College Foundation	
	Year Ended June 30, 2016	Year Ended June 30, 2015	Year Ended June 30, 2016	Year Ended June 30, 2015
<b>Revenues</b>				
Operating revenues:				
Student tuition and fees (net of scholarship allowances of \$13,214,969.17 for the year ended June 30, 2016, and \$9,272,545.79 for the year ended June 30, 2015)	\$ 14,307,210.89	\$ 16,315,112.23	\$ -	\$ -
Gifts and contributions	-	-	256,274.03	311,948.41
Endowment income (per spending plan)	-	-	109,334.46	100,521.93
Governmental grants and contracts	1,158,130.90	1,307,089.97	-	-
Nongovernmental grants and contracts	-	-	-	13,721.55
Sales and services of educational activities	27,547.75	20,937.50	-	-
Sales and services of other activities	139,617.99	143,905.91	-	-
Auxiliary enterprises:				
Bookstore	325,000.00	325,000.00	-	-
Food service	66,064.40	50,409.00	-	-
Other operating revenues	86,961.61	74,651.77	178,875.35	212,752.00
<b>Total operating revenues</b>	<b>16,110,533.54</b>	<b>18,237,106.38</b>	<b>544,483.84</b>	<b>638,943.89</b>
<b>Expenses</b>				
Operating expenses (Note 13):				
Salaries and wages	25,845,265.68	24,216,036.81	277,062.28	264,574.74
Benefits	8,399,646.06	7,850,915.42	110,659.77	116,133.34
Utilities, supplies, and other services	8,867,210.94	8,185,880.78	73,548.55	85,294.56
Scholarships and fellowships	9,077,093.15	7,697,808.27	-	-
Depreciation expense	2,239,420.59	2,161,440.32	-	-
Payments to or on behalf of Volunteer State Community College (Note 16)	-	-	881,824.60	893,925.95
<b>Total operating expenses</b>	<b>54,428,636.42</b>	<b>50,112,081.60</b>	<b>1,343,095.20</b>	<b>1,359,928.59</b>
<b>Operating loss</b>	<b>(38,318,102.88)</b>	<b>(31,874,975.22)</b>	<b>(798,611.36)</b>	<b>(720,984.70)</b>
<b>Nonoperating revenues (expenses)</b>				
State appropriations	17,404,437.50	16,435,000.00	-	-
Gifts (including \$451,824.60 from component unit for the year ended June 30, 2016, and \$473,925.95 for the year ended June 30, 2015)	540,416.91	447,526.34	-	-
Grants and contracts	20,446,701.86	15,418,609.71	-	-
Investment income (expense) (net of investment expense of \$30,120.73 for the component unit for the year ended June 30, 2016, and \$30,062.02 for the year ended June 30, 2015)	77,227.92	38,897.00	(63,586.04)	74,433.43
College support	-	-	435,599.59	433,847.64
Other nonoperating revenues (expenses)	(1,624.33)	(299.82)	-	-
<b>Total nonoperating revenues (expenses)</b>	<b>38,467,159.86</b>	<b>32,339,733.23</b>	<b>372,013.55</b>	<b>508,281.07</b>
<b>Income (loss) before other revenues, expenses, gains, or losses</b>	<b>149,056.98</b>	<b>464,758.01</b>	<b>(426,597.81)</b>	<b>(212,703.63)</b>
Capital appropriations	18,381,115.05	2,918,095.64	-	-
Capital grants and gifts (including \$430,000 from the component unit for the year ended June 30, 2016, and \$420,000 for the year ended June 30, 2015)	462,252.40	6,568,554.64	4,841.30	13,588.28
Additions to permanent endowments	791.00	696.00	33,615.00	29,050.00
<b>Total other revenues</b>	<b>18,844,158.45</b>	<b>9,487,346.28</b>	<b>38,456.30</b>	<b>42,638.28</b>
<b>Increase (decrease) in net position</b>	<b>18,993,215.43</b>	<b>9,952,104.29</b>	<b>(388,141.51)</b>	<b>(170,065.35)</b>
Net position - beginning of year, as originally reported	68,991,509.88	65,921,938.59	6,001,384.65	6,171,450.00
Cumulative effect of change in accounting principle (Note 15)	-	(6,882,533.00)	-	-
Net position - beginning of year restated	68,991,509.88	59,039,405.59	6,001,384.65	6,171,450.00
<b>Net position - end of year</b>	<b>\$ 87,984,725.31</b>	<b>\$ 68,991,509.88</b>	<b>\$ 5,613,243.14</b>	<b>\$ 6,001,384.65</b>

The notes to the financial statements are an integral part of this statement.

**Tennessee Board of Regents**  
**VOLUNTEER STATE COMMUNITY COLLEGE**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2016, and June 30, 2015**

	Year Ended June 30, 2016	Year Ended June 30, 2015
<b>Cash flows from operating activities</b>		
Tuition and fees	\$ 14,426,160.61	\$ 16,618,986.97
Grants and contracts	1,183,751.44	1,233,442.87
Sales and services of educational activities	30,355.75	20,717.50
Sales and services of other activities	139,617.99	143,905.91
Payments to suppliers and vendors	(8,908,549.35)	(8,487,509.09)
Payments to employees	(25,813,890.25)	(24,698,351.65)
Payments for benefits	(9,407,830.06)	(9,571,320.22)
Payments for scholarships and fellowships	(9,059,019.61)	(7,713,545.33)
Auxiliary enterprise charges:		
Bookstore	363,696.55	286,090.48
Food services	43,241.24	54,114.46
Other receipts	94,629.54	139,304.39
Net cash used for operating activities	(36,907,836.15)	(31,974,163.71)
<b>Cash flows from noncapital financing activities</b>		
State appropriations	17,370,900.00	16,439,800.00
Gifts and grants received for other than capital or endowment purposes, including \$437,538.89 from Volunteer State Community College Foundation for the year ended June 30, 2016, and \$428,976.84 for the year ended June 30, 2015	20,859,047.37	16,383,090.21
Private gifts for endowment purposes	791.00	696.00
Federal student loan receipts	6,461,760.00	7,576,997.00
Federal student loan disbursements	(6,461,760.00)	(7,576,997.00)
Changes in deposits held for others	113,684.13	436,257.96
Other noncapital financing receipts (payments)	7,878.95	(2,112.39)
Net cash provided by noncapital financing activities	38,352,301.45	33,257,731.78
<b>Cash flows from capital and related financing activities</b>		
Capital - state appropriation	18,381,115.05	2,918,095.64
Capital grants and gifts received, including \$430,000 from Volunteer State Community College Foundation for the year ended June 30, 2016, and \$420,000 for the year ended June 30, 2015	462,252.40	6,568,554.64
Purchase of capital assets and construction	(18,572,033.99)	(12,615,276.02)
Other capital and related financing payments	(539,717.45)	(447,082.54)
Net cash used for capital and related financing activities	(268,383.99)	(3,575,708.28)
<b>Cash flows from investing activities</b>		
Income on investments	82,129.10	33,294.28
Net cash provided by investing activities	82,129.10	33,294.28
Net increase (decrease) in cash and cash equivalents	1,258,210.41	(2,258,845.93)
Cash and cash equivalents - beginning of year	26,066,101.40	28,324,947.33
Cash and cash equivalents - end of year	\$ 27,324,311.81	\$ 26,066,101.40

**Tennessee Board of Regents**  
**VOLUNTEER STATE COMMUNITY COLLEGE**  
**Statements of Cash Flows (Continued)**  
**For the Years Ended June 30, 2016, and June 30, 2015**

	Year Ended June 30, 2016	Year Ended June 30, 2015
<b>Reconciliation of operating gain (loss) to net cash (used) by operating activities:</b>		
Operating loss	\$ (38,318,102.88)	\$ (31,874,975.22)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Noncash operating expenses	2,239,420.59	2,161,440.32
Gifts in-kind	108,897.14	122,241.58
Other adjustments	33,537.50	30,500.00
Change in assets and liabilities:		
Receivables, net	101,852.26	663,560.90
Inventories	1,160.72	291.89
Prepaid items	(191,920.19)	(329,922.82)
Net pension asset	(12,534.37)	-
Deferred outflows of resources - pensions	(2,642,909.31)	(1,724,239.40)
Net pension liability	2,598,820.97	(3,879,496.00)
Deferred inflows of resources - pensions	(1,072,486.00)	4,326,910.00
Accounts payable	49,062.05	(80,137.06)
Accrued liabilities	127,076.50	(976,344.27)
Unearned revenue	102,530.38	(433,926.99)
Compensated absences	(32,241.51)	19,933.36
<b>Net cash used by operating activities</b>	<b>\$ (36,907,836.15)</b>	<b>\$ (31,974,163.71)</b>
<b>Noncash investing, capital, or financing transactions</b>		
Gain on disposal of capital assets	\$ 1,924.08	\$ -
Transfer of land and building from City of Springfield and Robertson County	-	6,000,000.00

The notes to the financial statements are an integral part of this statement.

**Tennessee Board of Regents**  
**VOLUNTEER STATE COMMUNITY COLLEGE**  
**Notes to the Financial Statements**  
**June 30, 2016, and June 30, 2015**

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**Note 1. Summary of Significant Accounting Policies**

**Reporting Entity**

The college is a part of the State University and Community College System of Tennessee. This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides significant financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

The financial statements present only that portion of the State University and Community College System of Tennessee's activities that is attributable to the transactions of Volunteer State Community College.

The Volunteer State Community College Foundation is considered a component unit of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by its donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements. See Note 17 for more detailed information about the component unit and how to obtain the report.

**Basis of Presentation**

The college's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America applicable to governmental colleges and universities engaged in business-type activities as prescribed by the Governmental Accounting Standards Board (GASB).

**Basis of Accounting**

For financial statement purposes, the college is considered a special-purpose government engaged only in business-type activities. Accordingly, the financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all of the provider's eligibility requirements have been met. All significant internal activity has been eliminated.

The college has classified its revenues and expenses as either operating or nonoperating according to the following criteria: Operating revenues and expenses are those that have the characteristics of exchange transactions. Operating revenues include 1) tuition and fees, net of scholarship discounts and allowances; 2) certain federal, state, local, and private grants and contracts; 3) sales and services of auxiliary enterprises; and 4) interest on institutional loans. Operating expenses

## **Notes to the Financial Statements (Continued)**

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include 1) salaries and wages; 2) employee benefits; 3) utilities, supplies, and other services; 4) scholarships and fellowships; and 5) depreciation.

Nonoperating revenues and expenses include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other activities that are defined as nonoperating by GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement 34, such as state appropriations and investment income.

When both restricted and unrestricted resources are available for use, it is the college's policy to determine which to use first, depending upon existing facts and circumstances.

### **Cash Equivalents**

This classification includes instruments that are readily convertible to known amounts of cash and have original maturities of three months or less.

### **Inventories**

Inventories are valued at the lower of cost or market on an average cost or first-in, first-out basis.

### **Compensated Absences**

The college's employees accrue annual and sick leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time.

The amount of the liabilities for annual leave and compensatory time and their related benefits are reported in the statement of net position. There is no liability for unpaid accumulated sick leave since the college's policy is to pay this only if the employee dies or is absent because of illness, injury, or related family death.

### **Capital Assets**

Capital assets, which include property, plant, equipment, library holdings, works of art, historical treasures/collections, and intangible assets, are reported in the statement of net position at historical cost or at acquisition value at date of donation, less accumulated depreciation/amortization. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's useful life are not capitalized.

A capitalization threshold of \$100,000 is used for buildings, and \$50,000 is used for infrastructure. Equipment is capitalized when the unit acquisition cost is \$5,000 or greater. The capitalization threshold for additions and improvements to buildings and land is set at \$50,000. The capitalization threshold for intangible assets is set at \$100,000. The capitalization threshold for art, historical treasures/collections, and similar assets is set at \$5,000.

## **Notes to the Financial Statements (Continued)**

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These assets, with the exception of works of art and historical treasures/collections deemed inexhaustible and land, are depreciated/amortized using the straight-line method over their estimated useful lives, which range from 5 to 60 years.

### **Pensions**

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan in the Tennessee Consolidated Retirement System (TCRS) and additions to/deductions from the plans' fiduciary net positions have been determined on the same basis as they are reported by the TCRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Closed State and Higher Education Employee Pension Plan and the State and Higher Education Employee Retirement Plan. Investments are reported at fair value.

### **Net Position**

The college's net position is classified as follows:

Net investment in capital assets – This represents the college's total investment in capital assets, net of accumulated depreciation and net of outstanding debt obligations. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

Nonexpendable restricted net position – Nonexpendable restricted net position consists of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may be expendable or added to principal.

Expendable restricted net position – Expendable restricted net position includes resources that the college is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net position – Unrestricted net position represents resources derived from student tuition and fees; state appropriations; sales and services of educational departments; sales and services of other activities; and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the college and may be used at the college's discretion to meet current expenses for any purpose. The auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty, and staff.

### **Scholarship Discounts and Allowances**

Student tuition and fee revenues, as well as certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for

## Notes to the Financial Statements (Continued)

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goods and services provided by the college and the amount that is paid by the student and/or third parties making payments on the student's behalf. Certain governmental grants, such as Pell grants and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the college's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the college has recorded a scholarship discount and allowance.

### Note 2. Cash

This classification includes demand deposits and petty cash on hand. At June 30, 2016, cash consisted of \$1,354,016.54 in bank accounts, \$5,000.00 of petty cash on hand, \$25,213,725.11 in the Local Government Investment Pool (LGIP) administered by the State Treasurer, and \$751,570.16 in LGIP deposits for capital projects. At June 30, 2015, cash consisted of \$2,134,540.60 in bank accounts, \$5,000.00 of petty cash on hand, \$22,829,003.60 in the LGIP, and \$1,097,557.20 in LGIP deposits for capital projects.

The LGIP is part of the State Pooled Investment Fund and is measured at amortized cost. There are no minimum or maximum limitations on withdrawals with the exception of a 24-hour notification period for withdrawals of \$5 million or more. The fund's required risk disclosures are presented in the *State of Tennessee Treasurer's Report*. That report is available on the state's website at [www.treasury.tn.gov](http://www.treasury.tn.gov).

LGIP deposits for capital projects – Payments related to the college's capital projects are made by the State of Tennessee's Department of Finance and Administration. The college's estimated local share of the cost of each project is held in a separate LGIP account. As expenses are incurred, the Tennessee Board of Regents withdraws funds from the LGIP account and transfers them to the Department of Finance and Administration. The funds in the account are not available to the college for any other purpose until the project is completed and the Tennessee Board of Regents releases any remaining funds.

### Note 3. Investments

In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, as amended, investments are reported at fair value, including those with a maturity date of one year or less at the time of purchase, unless otherwise noted.

#### Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The college is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in

## **Notes to the Financial Statements (Continued)**

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banks and savings and loan associations; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the college and that endowment investments be prudently diversified. Securities are rated by Standard and Poor's, Moody's Investors Service, and/or Fitch Ratings and are presented below using the Standard and Poor's rating scale.

Tennessee Board of Regents policy restricts investments in bankers' acceptances and commercial paper. The policy requires that prime bankers' acceptances must be issued by domestic banks with a minimum AA rating or foreign banks with a AAA long-term debt rating by a majority of the ratings services that have rated the issuer. Prime bankers' acceptances are required to be eligible for purchase by the Federal Reserve System. To be eligible, the original maturity must not be more than 270 days, and it must 1) arise out of the current shipment of goods between countries or with the United States, or 2) arise out of storage within the United States of goods that are under contract of sale or are expected to move into the channel of trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods.

The policy requires that prime commercial paper be limited to that of corporations that meet the following criteria: 1) Senior long-term debt, if any, should have a minimum rating of A1 or equivalent, and short-term debt should have a minimum rating of A1 or equivalent, as provided by a majority of the rating services that rate the issuer. If there is no long-term debt rating, the short-term debt rating must be A1 by all rating services (minimum of two). 2) The rating should be based on the merits of the issuer or guarantee by a nonbank. 3) A financial review should be made to ascertain the issuer's financial strength to cover the debt. 4) Commercial paper of a banking institution should not be purchased. Prime commercial paper shall not have a maturity that exceeds 270 days.

At June 30, 2016, the college's investments included \$4,000,000 in certificates of deposit with a maturity greater than 90 days and \$25,965,295.27 in the LGIP. At June 30, 2015, the college's investments included \$4,000,000 in certificates of deposit with a maturity greater than 90 days and \$23,926,560.80 in the LGIP. LGIP investments are not rated by nationally recognized rating organizations.

### **Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of the college's investment in a single issuer. Tennessee Board of Regents policy restricts investments in bankers' acceptances, commercial paper, and money market mutual funds. The policy limits bankers' acceptances to not exceed 20% of the total investments on the date of acquisition and limits the combined amount of bankers' acceptances and commercial paper to not exceed 35% of the total investments at the date of acquisition. The amount invested in any one bank shall not exceed 5% of total investments on the date of acquisition. Additionally, no more than 5% of total investments at the date of acquisition may be invested in the commercial paper of a single issuer. The policy further limits the total holdings of an issuer's commercial paper to not more than 2% of the issuing

## **Notes to the Financial Statements (Continued)**

corporation's total outstanding commercial paper. Tennessee Board of Regents policy limits investments in money market mutual funds to not exceed 10% of total investments on the date of acquisition.

More than 5% of the college's investments were invested in the following single issuers:

<u>Issuer</u>	<u>Percentage of Total Investments</u>	
	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Farmers Bank	100%	-
First Tennessee Bank	-	100%

### **Note 4. Receivables**

Receivables included the following:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Student accounts receivable	\$2,025,595.33	\$1,842,339.06
Grants receivable	401,905.06	477,431.40
Other receivables	1,449,241.86	952,647.74
Subtotal	3,876,742.25	3,272,418.20
Less allowance for doubtful accounts	(1,243,169.37)	(1,050,369.89)
Total receivables	\$2,633,572.88	\$2,222,048.31

### **Note 5. Capital Assets**

Capital asset activity for the year ended June 30, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$ 3,486,847.24	\$ 7,760.65	\$ -	\$ -	\$ 3,494,607.89
Land improvements and infrastructure	12,945,708.56	-	-	-	12,945,708.56
Buildings	44,245,137.63	-	7,318,735.98	-	51,563,873.61
Equipment	8,501,950.68	746,125.88	-	(79,260.08)	9,168,816.48
Library holdings	586,201.15	28,813.62	-	(98,374.65)	516,640.12
Intangible assets	1,138,109.28	-	-	-	1,138,109.28
Projects in progress	13,442,218.69	18,252,027.98	(7,318,735.98)	-	24,375,510.69
Total	84,346,173.23	19,034,728.13	-	(177,634.73)	103,203,266.63

## Notes to the Financial Statements (Continued)

Less accumulated depreciation/amortization:

Land improvements and infrastructure	5,275,659.62	654,485.39	-	-	5,930,145.01
Buildings	16,887,168.98	707,575.78	-	-	17,594,744.76
Equipment	4,711,013.22	800,971.96	-	(77,336.00)	5,434,649.18
Library holdings	335,914.76	61,501.46	-	(98,374.65)	299,041.57
Intangible assets	1,012,818.79	14,886.00	-	-	1,027,704.79

Total	28,222,575.37	2,239,420.59	-	(175,710.65)	30,286,285.31
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Capital assets, net	\$ 56,123,597.86	\$16,795,307.54	\$ -	\$ (1,924.08)	\$ 72,916,981.32
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Capital asset activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	\$ 2,565,170.64	\$ 921,676.60	\$ -	\$ -	\$ 3,486,847.24
Land improvements and infrastructure	11,851,817.83	-	1,093,890.73	-	12,945,708.56
Buildings	39,030,502.24	5,214,635.39	-	-	44,245,137.63
Equipment	7,170,958.15	1,440,370.59	-	(109,378.06)	8,501,950.68
Library holdings	628,695.00	46,178.24	-	(88,672.09)	586,201.15
Intangible assets	1,138,109.28	-	-	-	1,138,109.28
Projects in progress	9,141,742.59	5,394,366.83	(1,093,890.73)	-	13,442,218.69

Total	71,526,995.73	13,017,227.65	-	(198,050.15)	84,346,173.23
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Less accumulated depreciation/amortization:

Land improvements and infrastructure	4,610,507.09	665,152.53	-	-	5,275,659.62
Buildings	16,345,027.42	542,141.56	-	-	16,887,168.98
Equipment	4,047,543.30	772,847.98	-	(109,378.06)	4,711,013.22
Library holdings	357,099.52	67,487.33	-	(88,672.09)	335,914.76
Intangible assets	899,007.87	113,810.92	-	-	1,012,818.79

Total	26,259,185.20	2,161,440.32	-	(198,050.15)	28,222,575.37
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Capital assets, net	\$ 45,267,810.53	\$10,855,787.33	\$ -	\$ -	\$ 56,123,597.86
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The decrease in building depreciation expense for the current period is due to a change in accounting estimate. During fiscal year 2015, it was determined that buildings were more appropriately depreciated over a period of 60 years, instead of the 40 years previously used. This change resulted in a reduction of depreciation expense of \$402,976.69.

## Notes to the Financial Statements (Continued)

### Note 6. Accounts Payable

Accounts payable included the following:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Vendors payable	\$ 2,314,644.17	\$ 1,819,126.27
Unapplied student payments	47,310.05	20,157.26
<b>Total accounts payable</b>	<b>\$ 2,361,954.22</b>	<b>\$ 1,839,283.53</b>

### Note 7. Long-term Liabilities

Long-term liabilities activity for the year ended June 30, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Other liabilities:					
Compensated absences	\$ 1,541,322.52	\$ 1,189,774.40	\$(1,222,015.91)	\$ 1,509,081.01	\$ 526,350.85
<b>Total long-term liabilities</b>	<b>\$ 1,541,322.52</b>	<b>\$ 1,189,774.40</b>	<b>\$(1,222,015.91)</b>	<b>\$ 1,509,081.01</b>	<b>\$ 526,350.85</b>

Long-term liabilities activity for the year ended June 30, 2015, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Other liabilities:					
Compensated absences	\$ 1,521,389.16	\$ 1,134,356.66	\$(1,114,423.30)	\$ 1,541,322.52	\$ 495,982.67
Due to grantors	406.99	-	(406.99)	-	-
<b>Total long-term liabilities</b>	<b>\$ 1,521,796.15</b>	<b>\$ 1,134,356.66</b>	<b>\$(1,114,830.29)</b>	<b>\$ 1,541,322.52</b>	<b>\$ 495,982.67</b>

### Note 8. Endowments

If a donor has not provided specific instructions to the college, state law permits the college to authorize for expenditure the earnings of the investments of endowment funds. When administering its power to spend the earnings, the college is required to consider its long-term and short-term needs; present and anticipated financial requirements; expected return on its investments; price-level trends; and general economic conditions. Any earnings spent are required to be spent for the purposes for which the endowment was established.

The college chooses to spend only a portion of the investment income each year. Under the spending plan established by the college, 100% of current year earnings has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years. At June 30, 2016, investment income of \$6,634.64 is available to be spent, all of which is included in restricted net position

## Notes to the Financial Statements (Continued)

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expendable for scholarships and fellowships. At June 30, 2015, investment income of \$6,508.88 is available to be spent, all of which is included in restricted net position expendable for scholarships and fellowships.

### Note 9. Pension Plans

#### Defined Benefit Plans

##### **Closed State and Higher Education Employee Pension Plan**

###### *General Information About the Pension Plan*

Plan description – State employees and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014, are provided with pensions through the Closed State and Higher Education Employee Pension Plan. This plan is a component of the Public Employee Retirement Plan, an agent, multiple-employer defined benefit pension plan. The Closed State and Higher Education Employee Pension Plan stopped accepting new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, a new agent defined benefit retirement plan, the State and Higher Education Employee Retirement Plan, became effective for state employees and higher education employees hired on or after July 1, 2014.

The TCRS was created by state statute under Title 8, Chapters 34-37, *Tennessee Code Annotated*. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at [www.treasury.tn.gov/tcrs](http://www.treasury.tn.gov/tcrs).

Benefits provided – Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Closed State and Higher Education Employee Pension Plan are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined using the following formula:

$$\begin{array}{l} \text{Average of member's highest} \\ \text{compensation for 5} \\ \text{consecutive years (up to} \\ \text{Social Security integration} \\ \text{level)} \end{array} \times 1.50\% \times \begin{array}{l} \text{Years of} \\ \text{Service} \\ \text{Credit} \end{array} \times 105\%$$

Plus:

A reduced early retirement benefit is available at age 55 and vested. Members are vested with five years of service credit. Service-related disability benefits are provided regardless of length of service. Five years of service is required for non-service-related disability eligibility. The service-related and non-service-related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost-of-living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to July 2 of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than 0.5%. A 1% COLA is granted if the CPI change is between 0.5% and 1%. A member who leaves employment may withdraw employee contributions, plus any accumulated interest.

*Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

At June 30, 2015, the college reported a liability of \$3,003,037.00 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation

## **Notes to the Financial Statements (Continued)**

as of that date. The college's proportion of the net pension liability was based on a projection of the college's contributions during the year ended June 30, 2014, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2014, measurement date, the college's proportion was 0.435255%, representing the first-time presentation of this proportion.

Pension expense – For the years ended June 30, 2016, and June 30, 2015, the college recognized pension expense of \$599,803 and \$447,414, respectively. The June 30, 2016, allocated pension expense was \$602,366 before being reduced by \$2,563 due to a change in proportionate share.

Deferred outflows of resources and deferred inflows of resources – For the years ended June 30, 2016, and June 30, 2015, the college reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Fiscal Year 2016</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 592,768.00	\$ 485,029.00
Net difference between projected and actual earnings on pension plan investments	-	720,134.00
Changes in proportion of net pension liability	-	10,252.00
College's contributions subsequent to the measurement date of June 30, 2015	1,674,636.15	-
<b>Total</b>	<b>\$ 2,267,404.15</b>	<b>\$ 1,215,415.00</b>

<u>Fiscal Year 2015</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 647,838.00
Net difference between projected and actual earnings on pension plan investments	-	3,679,072.00
College's contributions subsequent to the measurement date of June 30, 2014	1,705,245.03	-
<b>Total</b>	<b>\$ 1,705,245.03</b>	<b>\$ 4,326,910.00</b>

Deferred outflows of resources, resulting from the college's employer contributions of \$1,674,636.15 subsequent to the measurement date, will be recognized as a decrease in net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

## Notes to the Financial Statements (Continued)

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Year Ended June 30	
2017	\$ (425,621.00)
2018	(425,621.00)
2019	(425,621.00)
2020	654,216.00
2021	-
Thereafter	-

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions – The total pension liability was determined by actuarial valuations using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	Graded salary ranges from 8.97% to 3.71% based on age, including inflation, averaging 4.25%
Investment rate of return	7.5%, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.5%

Mortality rates were based on actual experience from the June 30, 2012, actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the actuarial valuations were based on the results of an actuarial experience study performed for the period July 1, 2008, through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012, actuarial experience study by considering the following three techniques: 1) the 25-year historical return of the TCRS at June 30, 2012; 2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation; and 3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3%. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

## Notes to the Financial Statements (Continued)

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		<hr/> 100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5% based on a blending of the three factors described above.

Discount rate – The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate – The following presents the college's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the college's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
College's net pension liability (asset)	\$13,126,007.00	\$5,601,857.97	\$(739,551.00)

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report at [www.treasury.tn.gov/tcrs](http://www.treasury.tn.gov/tcrs).

### *Payable to the Pension Plan*

At June 30, 2016, and June 30, 2015, the college reported a payable of \$141,685.19 and \$147,018.29, respectively, for the outstanding amount of legally required contributions to the pension plan required for the years then ended.

## Notes to the Financial Statements (Continued)

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### State and Higher Education Employee Retirement Plan

#### *General Information About the Pension Plan*

Plan description – State employees and higher education employees with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014, are provided with pensions through the Closed State and Higher Education Employee Pension Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. TCRS is a multiple-employer pension plan. The Closed State and Higher Education Pension Plan was closed effective June 30, 2014, and covers employees hired before July 1, 2014. Employees hired after June 30, 2014, are provided with pensions through a legally separate plan referred to as the State and Higher Education Employee Retirement Plan, an agent plan within the Public Employee Retirement Plan administered by the TCRS. The TCRS was created by state statute under Title 8, Chapters 34-37, *Tennessee Code Annotated*.

Benefits provided – Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the State and Higher Education Employee Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. Members are entitled to receive unreduced service retirement benefits, which are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Service-related disability benefits are provided regardless of length of service. Five years of service is required for non-service-related disability eligibility. The service-related and non-service-related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service credit. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost-of-living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to July 2 of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than 0.5%. A 1% COLA is granted if the CPI change is between 0.5% and 1%. A member who leaves employment may withdraw employee contributions, plus any accumulated interest. Under the State and Higher Education Employee Retirement Plan, benefit terms and conditions, including COLAs, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

Contributions – Contributions for state and higher education employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5% of their salary. The higher education institutions make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4% for all aggregate employee groups, except in years when the maximum funded level, approved by the TCRS Board of Trustees, is reached. By law, employer contributions for the State and Higher Education Employee Retirement Plan are required to be paid. Employer contributions by

## Notes to the Financial Statements (Continued)

the college for the years ended June 30, 2016, and June 30, 2015, to the State and Higher Education Employee Retirement Plan were \$64,671.56 and \$18,994.37, respectively, which is 3.87% of covered payroll. The employer rate is 3.87% of covered payroll except for any salaries derived from federal funds where the employer rate is 2%. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year and the cost of administration, as well as an amortized portion of any unfunded liability.

### *Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*

Pension asset – At June 30, 2016, the college reported an asset of \$12,534.37 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date. The college's proportion of the net pension asset was based on a projection of the college's contributions during the year ended June 30, 2015, to the pension plan relative to the contributions of all participating state and higher education agencies. At the June 30, 2015, measurement date, the college's proportion was 0.450712%, representing the first-time presentation of this proportion.

Pension expense – For the year ended June 30, 2016, the college recognized a pension expense of \$10,396. Since the measurement date for the year ended June 30, 2015, was June 30, 2014, the college did not recognize a pension expense at June 30, 2015.

Deferred outflows of resources and deferred inflows of resources – For the years ended June 30, 2016, and June 30, 2015, the college reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Fiscal Year 2016</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 4,663.00
Net difference between projected and actual earnings on pension plan investments	727.00	-
College's contributions subsequent to the measurement date of June 30, 2015	64,671.56	-
<b>Total</b>	<b>\$65,398.56</b>	<b>\$ 4,663.00</b>

<u>Fiscal Year 2015</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
College's contributions subsequent to the measurement date of June 30, 2014	\$18,994.37	\$ -

Deferred outflows of resources, resulting from the college's employer contributions of \$64,671.56 subsequent to the measurement date, will be recognized as a decrease in net pension liability in

## Notes to the Financial Statements (Continued)

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the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30</u>	
2017	\$ (401.00)
2018	(401.00)
2019	(401.00)
2020	(401.00)
2021	(583.00)
Thereafter	(1,749.00)

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions – The total pension asset as of the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	Graded salary ranges from 8.97% to 3.71% based on age, including inflation, averaging 4.25%
Investment rate of return	7.5%, net of pension plan investment expenses, including inflation
Cost-of-living adjustment	2.5%

Mortality rates were based on actual experience from the June 30, 2012, actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2015, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008, through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012, actuarial experience study by considering the following three techniques: 1) the 25-year historical return of the TCRS at June 30, 2012; 2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation; and 3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected

## Notes to the Financial Statements (Continued)

future real rates of return by the target asset allocation percentage and by adding inflation of 3%. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>	<u>Target Allocation</u>
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5% based on a blending of the three factors described above.

Discount rate – The discount rate used to measure the total pension asset was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from all state and higher education agencies will be made at the actuarially determined contribution rate in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset.

Sensitivity of the net pension liability (asset) to changes in the discount rate – The following presents the college’s proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5%, as well as what the college’s proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
College’s net pension liability (asset)	\$(4,924.00)	\$(12,534.37)	\$(18,229.00)

Pension plan fiduciary net position – Detailed information about the pension plan’s fiduciary net position is available in a separately issued TCRS financial report at [www.treasury.tn.gov/tcrs](http://www.treasury.tn.gov/tcrs).

## Notes to the Financial Statements (Continued)

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### *Payable to the Pension Plan*

At June 30, 2016, and at June 30, 2015, the college reported a payable of \$6,980.88 and \$2,827.24, respectively, for the outstanding amount of legally required contributions to the pension plan required for the years then ended.

### **Total Defined Benefit Pension Expense**

The total pension expense for the year ended June 30, 2016, for all state and local government defined benefit pension plans was \$610,199. The total pension expense for the year ended June 30, 2015, for all state and local government defined benefit pension plans was \$447,414.

### **Defined Contribution Plans**

#### **Optional Retirement Plans**

Plan description – The college contributes to the Optional Retirement Plan (ORP). The ORP, administered by the Tennessee Treasury Department, is a defined contribution plan. The ORP was established by state statute in Title 8, Chapter 25, Part 2, *Tennessee Code Annotated*. This statute also sets out the plan provisions. The plan provisions are amended by the Tennessee General Assembly. The ORP was designed to provide benefits at retirement to faculty and staff who are exempt from the overtime provision of the Fair Labor Standards Act and who waive membership in the TCRS. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings.

Funding policy – For employees employed prior to July 1, 2014, plan members are noncontributory. The college contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. For employees hired after June 30, 2014, plan members will contribute 5% to the ORP and the college will contribute 9% of the employee's base salary. Pension expense equaled the required contributions made to the ORP and were \$954,892.38 for the year ended June 30, 2016; \$976,953.05 for the year ended June 30, 2015; and \$981,389.61 for the year ended June 30, 2014. Contributions met the requirements for each year.

Members are immediately 100% vested in the employer contributions made pursuant to the ORP. The Treasury Department has selected three investment vendors who offer a variety of investment products, and members are responsible for selecting how the contributions are invested. Each member makes the decision when to reallocate future contributions or when to transfer funds from one investment product to another. Funds are held by the investment vendor in the name of the member, not in the name of the State of Tennessee. The State of Tennessee has no discretion over these funds other than to make the initial contributions. Accordingly, the State of Tennessee is not acting in a trustee capacity, nor does it have a fiduciary responsibility for the funds held by the investment vendors.

## Notes to the Financial Statements (Continued)

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### Deferred Compensation Plans

Employees are offered three deferred compensation plans. The college, through the State of Tennessee, provides two plans, one established pursuant to the Internal Revenue Code (IRC), Section 457, and the other pursuant to IRC, Section 401(k). The third plan is administered by the college and was established in accordance with IRC, Section 403(b). The plans are outsourced to third-party vendors, and the administrative costs assessed by the vendors of these plans are the responsibility of plan participants. Section 401(k), Section 403(b), and Section 457 plan assets remain the property of the contributing employees; therefore, they are not presented in the accompanying financial statements. Sections 401(k), 403(b), and 457 establish participation, contribution, and withdrawal provisions for the plans. Participation in the 403(b) and the 457 plans are voluntary for employees. The college provides up to a \$50 monthly employer match for employees who participate in the state's 401(k) plan. Employees hired before July 1, 2014, voluntarily participate in the state's 401(k) plan. Pursuant to Public Chapter No. 259 of Public Acts of 2013, employees hired after June 30, 2014, are automatically enrolled in the state's 401(k) plan and contribute 2% of their salary, with the employer contributing an additional non-matching 5%. Employees may opt out of the 2% auto enrollment. Such contribution rates may only be amended by the Tennessee General Assembly. There are certain automatic cost controls and unfunded liability controls in the defined benefit plan where the employees participate that may impact the non-matching 5% employer contribution to the 401(k) plan.

Employees are immediately vested in both the employee and employer contributions in all plans. The IRC establishes maximum limits that an employee can contribute to these plans. The employee may increase, decrease, or stop contributions at any time for all three plans.

During the year ended June 30, 2016, contributions totaling \$564,186.23 were made by employees participating in the 401(k) plan, and the college recognized pension expense of \$176,573.52 for employer contributions. During the year ended June 30, 2015, contributions totaling \$482,754.17 were made by employees participating in the 401(k) plan, with contributions of \$172,401.41 made by the college. During the year ended June 30, 2014, contributions totaling \$485,593.35 were made by employees participating in the 401(k) plan, with contributions of \$173,540.00 made by the college.

### *Payable to the Pension Plan*

At June 30, 2016, and at June 30, 2015, the college reported a payable of \$31.62 and \$0.00, respectively, for the outstanding amount of legally required contributions to the pension plan required for the years then ended.

### **Note 10. Other Postemployment Benefits**

Healthcare is the only "other postemployment benefit" (OPEB) provided to employees. The State of Tennessee administers a group health insurance program that provides postemployment health insurance benefits to eligible college retirees. This program includes two plans available to higher education employees—the State Employee Group Plan and the Medicare Supplement Plan. For

## Notes to the Financial Statements (Continued)

accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Section 8-27-201, *Tennessee Code Annotated*, for the State Employee Group Plan and for the Medicare Supplement Plan. The State Employee Group Plan covers retirees until they reach the age of 65. Members have the option of choosing between the standard or partnership preferred provider organization plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered Medicare supplement that does not include pharmacy. Employees hired on or after July 1, 2015, are not eligible to continue insurance coverage at retirement in either the State Employee Group Plan or the Medicare Supplement Plan. The state makes on-behalf payments to the Medicare Supplement Plan for the college's eligible retirees; see Note 14. The plans are reported in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at [www.tn.gov/finance/article/fa-accfin-cafr](http://www.tn.gov/finance/article/fa-accfin-cafr).

### Special Funding Situation

The State of Tennessee is legally responsible for contributions to the Medicare Supplement Plan, which covers the retirees of other governmental entities, including Volunteer State Community College. The state is the sole contributor for the college retirees who participate in the Medicare Supplement Plan and, therefore, is acting as the employer.

### Funding Policy

The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. The plan's claims liabilities are periodically computed using actuarial and statistical techniques to establish premium rates. The plan's administrative costs are allocated to plan participants. Retired members pay the same base premium, adjusted for years of service, as active employees. Retirees with 30 years of service are subsidized 80%; retirees with 20 years of service but less than 30 years of service, 70%; and retirees with less than 20 years of service, 60%. Retirees in the Medicare Supplement Plan have flat-rate premium subsidies based on years of service. Retirees with 30 years of service receive \$50 per month; retirees with 20 years of service but less than 30 years of service, \$37.50; and retirees with 15 years of service but less than 20 years of service, \$25.

#### College's Annual OPEB Cost and Net OPEB Obligation State Employee Group Plan

	<u>2016</u>	<u>2015</u>
Annual required contribution (ARC)	\$ 573,000.00	\$ 556,000.00
Interest on the net OPEB obligation	89,984.13	93,944.72
Adjustment to the ARC	(90,345.51)	(91,524.81)
Annual OPEB cost	572,638.62	558,419.91
Amount of contribution	(513,287.24)	(507,461.27)
Increase in net OPEB obligation	59,351.38	50,958.64

## Notes to the Financial Statements (Continued)

Net OPEB obligation – beginning of year	2,399,576.69	2,348,618.05
Net OPEB obligation – end of year	\$ 2,458,928.07	\$ 2,399,576.69

<u>Year-end</u>	<u>Plan</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation at Year-end</u>
June 30, 2016	State Employee Group Plan	\$572,638.62	89.6%	\$2,458,928.07
June 30, 2015	State Employee Group Plan	\$558,419.91	90.9%	\$2,399,576.69
June 30, 2014	State Employee Group Plan	\$538,346.27	86.7%	\$2,348,618.05

### Funded Status and Funding Progress

The funded status of the college's portion of the State Employee Group Plan was as follows:

#### State Employee Group Plan

Actuarial valuation date	July 1, 2015
Actuarial accrued liability (AAL)	\$ 4,709,000.00
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	\$ 4,709,000.00
Actuarial value of assets as a percentage of the AAL	0.00%
Covered payroll (active plan members)	\$ 22,148,975.56
UAAL as percentage of covered payroll	21.3%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

### Actuarial Methods and Assumptions

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

## Notes to the Financial Statements (Continued)

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In the July 1, 2015, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 3.75% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6.5% initially. The rate decreased to 6% in fiscal year 2016 and then reduces by decrements to an ultimate rate of 4.7% in fiscal year 2050. All rates include a 2.5% inflation assumption. Premium subsidies in the Medicare Supplement Plan are projected to remain unchanged, and, consequently, trend rates are not applicable. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30-year period beginning with July 1, 2007. Payroll is assumed to grow at a rate of 3%.

### Note 11. Insurance-related Activities

It is the policy of the state not to purchase commercial insurance for the risks associated with casualty losses for general liability, automobile liability, professional medical malpractice, and workers' compensation. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlement in its internal service fund, the Risk Management Fund (RMF). The state purchases commercial insurance for real property; crime and fidelity coverage on the state's officials and employees; and cyber liability coverage. For property coverage, the deductible for an individual state agency is the first \$25,000 of losses. The RMF is responsible for property losses for the annual aggregate deductible of \$7.5 million for perils other than earthquakes and flood. Purchased insurance coverage is responsible for losses exceeding the \$7.5 million annual aggregate deductible. For earthquake and flood, there is a deductible of \$10 million per occurrence. The maximum insurance coverage is \$750 million per year for perils other than earthquake and flood. The maximum flood insurance coverage is \$50 million per occurrence, except there is only \$25 million of coverage in flood zones A and V. The maximum earthquake insurance coverage is \$50 million per occurrence. The amounts of settlements have not exceeded insurance coverage for each of the three past fiscal years.

The college participates in the RMF. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on a percentage of the college's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Information regarding the determination of the claims liabilities and the changes in the balances of the claims liabilities for the year ended June 30, 2016, is presented in the *Tennessee Comprehensive Annual Financial Report* (CAFR). The CAFR is available on the state's website at [www.tn.gov/finance/article/fa-accfin-cafr](http://www.tn.gov/finance/article/fa-accfin-cafr). Since the college participates in the Risk Management Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, Section 9-8-101 et seq., *Tennessee Code Annotated*. Liability for negligence of the college for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. At June 30, 2016, the Risk Management Fund held \$142.9 million in cash designated for payment of claims. At June 30, 2015, the Risk Management Fund held \$127.9 million in cash designated for payment of claims.

## **Notes to the Financial Statements (Continued)**

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At June 30, 2016, the scheduled coverage for the college was \$106,992,600 for buildings and \$31,562,200 for contents. At June 30, 2015, the scheduled coverage for the college was \$100,196,100 for buildings and \$30,562,200 for contents.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state, with the risk retained by the state. The college participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on estimates of the ultimate cost of claims, including the cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

### **Note 12. Commitments and Contingencies**

#### **Sick Leave**

The college records the cost of sick leave when paid. The dollar amount of unused sick leave was \$7,898,442.03 at June 30, 2016, and \$7,664,178.64 at June 30, 2015.

#### **Operating Leases**

The college has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for real property were \$0.00 and expenses for personal property were \$208,711.99 for the year ended June 30, 2016. The amounts for the year ended June 30, 2015, were \$416.67 and \$219,567.47. All operating leases are cancelable at the lessee's option.

#### **Construction in Progress**

At June 30, 2016, outstanding commitments under construction contracts totaled \$6,078,674.40 for the Humanities Building; Wood Building restroom renovations; and campus site lighting updates, of which \$5,079,559.12 will be funded by future state capital outlay appropriations.

#### **Litigation**

The college is involved in several lawsuits, none of which are expected to have a material effect on the accompanying financial statements.

## Notes to the Financial Statements (Continued)

### Note 13. Natural Classification With Functional Classifications

The college's operating expenses for the year ended June 30, 2016, are as follows:

<u>Natural Classification</u>						
<u>Functional Classification</u>	<u>Salaries</u>	<u>Benefits</u>	<u>Other Operating</u>	<u>Scholarships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 15,559,927.24	\$ 4,732,336.72	\$ 4,911,151.71	\$ 131,537.00	\$ -	\$ 25,334,952.67
Public service	114,600.97	42,846.82	189,716.14	-	-	347,163.93
Academic support	2,576,801.22	811,780.39	(849,363.76)	57,854.44	-	2,597,072.29
Student services	2,480,549.20	928,415.06	1,159,048.96	413,313.50	-	4,981,326.72
Institutional support	3,203,045.41	1,105,171.50	1,099,264.91	28,149.67	-	5,435,631.49
Maintenance & operation	1,910,341.64	772,533.57	2,271,538.38	7,209.34	-	4,961,622.93
Scholarships & fellowships	-	6,562.00	-	8,439,029.20	-	8,445,591.20
Auxiliary	-	-	85,854.60	-	-	85,854.60
Depreciation	-	-	-	-	2,239,420.59	2,239,420.59
<b>Total</b>	<b>\$ 25,845,265.68</b>	<b>\$ 8,399,646.06</b>	<b>\$ 8,867,210.94</b>	<b>\$ 9,077,093.15</b>	<b>\$ 2,239,420.59</b>	<b>\$ 54,428,636.42</b>

The college's operating expenses for the year ended June 30, 2015, are as follows:

<u>Natural Classification</u>						
<u>Functional Classification</u>	<u>Salaries</u>	<u>Benefits</u>	<u>Other Operating</u>	<u>Scholarships</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 14,341,994.14	\$ 4,311,783.33	\$ 4,398,291.52	\$ 165,029.00	\$ -	\$ 23,217,097.99
Public service	109,868.04	35,368.73	219,884.25	-	-	365,121.02
Academic support	2,268,524.58	715,836.93	(837,630.44)	34,096.50	-	2,180,827.57
Student services	2,446,659.23	891,353.15	1,119,904.48	390,751.50	-	4,848,668.36
Institutional support	3,750,805.66	1,377,401.55	1,122,833.25	35,073.45	-	6,286,113.91
Maintenance & operation	1,298,185.16	513,927.73	2,071,831.26	7,152.77	-	3,891,096.92
Scholarships & fellowships	-	5,244.00	3,863.00	7,065,705.05	-	7,074,812.05
Auxiliary	-	-	86,903.46	-	-	86,903.46
Depreciation	-	-	-	-	2,161,440.32	2,161,440.32
<b>Total</b>	<b>\$ 24,216,036.81</b>	<b>\$ 7,850,915.42</b>	<b>\$ 8,185,880.78</b>	<b>\$ 7,697,808.27</b>	<b>\$ 2,161,440.32</b>	<b>\$ 50,112,081.60</b>

Expenses initially incurred by the academic support function as a result of providing internal services to the other functional classifications were allocated to the other functional areas by reducing the academic support function's operating expenses by the total amount of salaries, benefits, and operating expenses incurred in the provision of these services, and allocating this amount to the other functional areas' operating expenses on the basis of usage. As a result of this process, expenses totaling \$2,332,144.60 for the year ended June 30, 2016, and \$2,114,465.34 for the year ended June 30, 2015, were reallocated from academic support to the other functional areas and caused academic support operating expenses to appear as a negative amount in the schedule above.

## Notes to the Financial Statements (Continued)

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### Note 14. On-behalf Payments

During the year ended June 30, 2016, the State of Tennessee made payments of \$33,537.50 on behalf of the college for retirees participating in the Medicare Supplement Plan. The amount for the year ended June 30, 2015, was \$30,500.00. The Medicare Supplement Plan is a postemployment benefit healthcare plan and is discussed further in Note 10. The plan is reported in the *Tennessee Comprehensive Annual Financial Report*. That report is available on the state's website at [www.tn.gov/finance/article/fa-accfin-cafr](http://www.tn.gov/finance/article/fa-accfin-cafr).

### Note 15. Cumulative Effect of a Change in Accounting Principle

During fiscal year 2015, the college implemented GASB Statement 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These statements establish standards for the measurement, recognition, and display of the net pension liability and related expenses, deferred outflows of resources, deferred inflows of resources, note disclosures, and required supplementary information. The implementation of these statements resulted in a cumulative adjustment to beginning net position of \$(6,882,533). This cumulative adjustment does not include related deferred outflows and deferred inflows of resources.

### Note 16. Component Unit

The Volunteer State Community College Foundation is a legally separate, tax-exempt organization supporting Volunteer State Community College. The foundation acts primarily as a fund-raising organization to supplement the resources that are available to the college in support of its programs. The 43-member board of the foundation is self-perpetuating and consists of graduates and friends of the college. Although the college does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the college by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the college, the foundation is considered a component unit of the college and is discretely presented in the college's financial statements.

The foundation is a nonprofit organization that reports under Financial Accounting Standards Board standards. As such, certain revenue recognition criteria and presentation features are different from Governmental Accounting Standards Board revenue recognition criteria and presentation features. With the exception of necessary presentation adjustments, no modifications have been made to the foundation's financial information in the college's financial statements for these differences.

During the year ended June 30, 2016, the foundation made distributions of \$881,824.60 to or on behalf of the college for both restricted and unrestricted purposes. During the year ended June 30, 2015, the foundation made distributions of \$893,925.95 to or on behalf of the college for both

## Notes to the Financial Statements (Continued)

restricted and unrestricted purposes. Complete financial statements for the foundation can be obtained from Volunteer State College Foundation, 1480 Nashville Pike, Gallatin, TN 37066.

### Fair-value Measurements

The foundation reports certain assets at fair value. Fair value has been determined using quoted prices in active markets for identical assets that are accessible at the measurement date (Level 1), inputs other than quoted market prices included in Level 1 that are directly or indirectly observable for the asset or liability (Level 2), or significant unobservable inputs (Level 3). The following table categorizes the recurring fair-value measurements for assets at June 30, 2016, and at June 30, 2015.

	Total Fair Value at <u>June 30, 2016</u>	Quoted Prices <u>Level 1</u>	Significant Other Inputs <u>Level 2</u>	Significant Unobservable Inputs <u>Level 3</u>
Assets:				
Investments	\$ 4,594,717.45	\$ 2,853,886.67	\$ 1,740,830.78	\$ -
Total assets	\$ 4,594,717.45	\$ 2,853,886.67	\$ 1,740,830.78	\$ -

	Total Fair Value at <u>June 30, 2015</u>	Quoted Prices <u>Level 1</u>	Significant Other Inputs <u>Level 2</u>	Significant Unobservable Inputs <u>Level 3</u>
Assets:				
Investments	\$ 4,925,786.82	\$ 2,881,785.22	\$ 2,044,001.60	\$ -
Total assets	\$ 4,925,786.82	\$ 2,881,785.22	\$ 2,044,001.60	\$ -

### Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposit accounts, certificates of deposit, money market funds, and Local Government Investment Pool.

### Investments

Investments are recorded on the date of contribution and are stated at fair value. Unrealized gains and losses are determined by the difference between fair values at the beginning and end of the year.

Investments held at June 30, 2016, were as follows:

	<u>Cost</u>	<u>Fair Value</u>
U.S. Treasury	\$ 101,360.58	\$ 145,516.51
U.S. agencies	794,044.04	812,691.64
Certificates of deposit	270,000.00	270,208.23

## Notes to the Financial Statements (Continued)

Corporate stock	2,265,341.31	2,853,886.67
Corporate bonds	510,370.14	512,414.40
<b>Total investments</b>	<b>\$ 3,941,116.07</b>	<b>\$ 4,594,717.45</b>

Investments held at June 30, 2015, were as follows:

	<u>Cost</u>	<u>Fair Value</u>
U.S. Treasury	\$ 101,360.58	\$ 140,282.74
U.S. agencies	973,856.16	974,824.39
Certificates of deposit	404,000.00	401,774.67
Corporate stock	2,263,278.53	2,881,785.22
Corporate bonds	529,617.74	527,119.80
<b>Total investments</b>	<b>\$ 4,272,113.01</b>	<b>\$ 4,925,786.82</b>

Investment return – The following schedule summarizes the total investment return and its classification on the foundation's statement of revenues, expenses, and changes in net position.

	<u>2016</u>	<u>2015</u>
Dividends and interest (net of expenses of \$30,120.73 and \$30,062.02)	\$ 111,483.81	\$ 99,337.81
Net realized and unrealized gains (losses)	(65,735.39)	75,617.55
<b>Total return on investments</b>	<b>45,748.42</b>	<b>174,955.36</b>
Endowment income per spending plan	109,334.46	100,521.93
Investment return in excess of amounts designated for current operations (Investment return reduced by the portion of cumulative net appreciation designated for current operations)	\$ (63,586.04)	\$ 74,433.43

### Pledges Receivable

Pledges receivable are summarized below net of allowance for doubtful accounts:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Current pledges	\$47,390.00	\$421,987.60
Pledges due in one to five years	28,300.00	56,000.00
<b>Subtotal</b>	<b>75,690.00</b>	<b>477,987.60</b>
Less discount to net present value	(187.47)	(138.76)
<b>Total pledges receivable, net</b>	<b>\$75,502.53</b>	<b>\$477,848.84</b>

## Notes to the Financial Statements (Continued)

### Endowments

The Volunteer State Community College Foundation's endowments consist of approximately 54 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by accounting principles generally accepted in the United States of America, net position associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, is classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law – The Board of Trustees of the Volunteer State Community College Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (the Act) as adopted by Tennessee as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulation to the contrary. As a result of this interpretation, the Volunteer State Community College Foundation classifies as permanently restricted net position 1) the original value of gifts donated to the permanent endowment; 2) the original value of subsequent gifts to the permanent endowment; and 3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net position is classified as temporarily restricted net position until the foundation appropriates those amounts for expenditure in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: 1) the duration and preservation of the fund; 2) the purposes of the foundation and the endowment fund; 3) the general economic conditions; 4) the possible effect of inflation or deflation; 5) the expected total return from income and the appreciation of investments; 6) the other resources of the foundation; and 7) the investment policies of the foundation.

### Composition of Endowment by Net Position Class As of June 30, 2016

	Permanently <u>Restricted</u>	Temporarily <u>Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 2,164,849.26	\$ 830,889.02	\$ -	\$ 2,995,738.28
Board-designated endowment funds	-	-	1,708,183.99	1,708,183.99
<b>Total funds</b>	<b>\$ 2,164,849.26</b>	<b>\$ 830,889.02</b>	<b>\$ 1,708,183.99</b>	<b>\$ 4,703,922.27</b>

## Notes to the Financial Statements (Continued)

### Composition of Endowment by Net Position Class As of June 30, 2015

	Permanently <u>Restricted</u>	Temporarily <u>Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 2,133,248.23	\$ 841,497.53	\$ -	\$ 2,974,745.76
Board-designated endowment funds	-	-	1,724,359.91	1,724,359.91
Total funds	\$ 2,133,248.23	\$ 841,497.53	\$ 1,724,359.91	\$ 4,699,105.67

### Changes in Endowment Net Position For the Fiscal Year Ended June 30, 2016

	Permanently <u>Restricted</u>	Temporarily <u>Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Endowment net position, beginning of year	\$ 2,133,248.23	\$ 841,497.53	\$ 1,724,359.91	\$ 4,669,105.67
Investment return:				
Investment income	2,638.05	68,202.91	40,634.37	111,475.33
Net appreciation (realized and unrealized)	-	(41,605.10)	(24,130.29)	(65,735.39)
Total investment return	2,638.05	26,597.81	16,504.08	45,739.94
Contributions	30,895.00	-	2,720.00	33,615.00
Appropriations of endowment assets for expenditure	-	(35,900.00)	(29,400.00)	(65,300.00)
Transfers	(1,932.02)	(1,306.32)	(6,000.00)	(9,238.34)
Endowment net position, end of year	\$ 2,164,849.26	\$ 830,889.02	\$ 1,708,183.99	\$ 4,703,922.27

### Changes in Endowment Net Position For the Fiscal Year Ended June 30, 2015

	Permanently <u>Restricted</u>	Temporarily <u>Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Endowment net position, beginning of year	\$ 2,103,114.96	\$ 798,476.33	\$ 1,692,933.95	\$ 4,594,525.24
Investment return:				
Investment income	284.71	61,913.53	37,130.48	99,328.72
Net appreciation (realized and unrealized)	-	48,682.07	26,935.48	75,617.55
Total investment return	284.71	110,595.60	64,065.96	174,946.27
Contributions	26,850.00	3,230.00	2,200.00	32,280.00

## Notes to the Financial Statements (Continued)

Appropriations of endowment assets for expenditure	-	(63,375.00)	(28,840.00)	(92,215.00)
Transfers	2,998.56	(7,429.40)	(6,000.00)	(10,430.84)
Endowment net position, end of year	\$ 2,133,248.23	\$ 841,497.53	\$ 1,724,359.91	\$ 4,699,105.67

Return objectives and risk parameters – The foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that preserve and protect its assets by earning a total return for each category of assets (a “fund”), which is appropriate for each fund’s time horizon, distribution requirements, and risk tolerance. The foundation expects its endowment funds, over time, to provide an average rate of return of approximately 7% annually. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives – To satisfy its long-term rate-of-return objectives, the foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk restraints.

Spending policy and how the investment objectives relate – The foundation has a policy of appropriating for distribution each year to spend only a portion of investment income each year. Under the spending plan established by the foundation, 80% of current year earnings have been authorized for expenditure. In establishing this policy, the foundation considered the long-term expected return on its endowment. Accordingly, over the long-term, the foundation expects the current spending policy to allow its endowment to grow at an average of 1% annually. This is consistent with the foundation’s objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

### Support From Volunteer State Community College

The college paid certain payroll costs for college personnel who also performed services supporting the foundation amounting to \$387,722.05 in fiscal year 2016 and \$380,708.08 in fiscal year 2015. In addition, operating expenses, including office space of \$47,877.54 in fiscal year 2016 and \$53,139.56 in fiscal year 2015, were included in the cost of support services. These supporting costs paid by the college are reflected in the statement of revenues, expenses, and changes in net position as college support, with a like amount included in expenses.

**Tennessee Board of Regents**  
**Volunteer State Community College**  
**Required Supplementary Information**  
**Schedule of Volunteer State Community College's Proportionate Share**  
**of the Net Pension Liability**  
**Closed State and Higher Education Employee Pension Plan Within TCRS**

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	<u>2016</u>	<u>2015</u>
College's proportion of the net pension liability	0.434494%	0.435255%
College's proportionate share of the net pension liability	\$5,601,857.97	\$3,003,037.00
College's covered payroll	\$11,345,600.00	\$11,890,812.33
College's proportionate share of the net pension liability as a percentage of its covered payroll	49.37%	25.26%
Plan fiduciary net position as a percentage of the total pension liability	91.26%	95.11%

- 1) To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.
- 2) This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future years until 10 years of information are available.

**Tennessee Board of Regents**  
**Volunteer State Community College**  
**Required Supplementary Information**  
**Schedule of Volunteer State Community College's Proportionate Share**  
**of the Net Pension Asset**  
**State and Higher Education Employee Retirement Plan Within TCRS**

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	2016
College's proportion of the net pension asset	0.450712%
College's proportionate share of the net pension asset	\$12,534.34
College's covered payroll	\$490,806.51
College's proportionate share of the net pension asset as a percentage of its covered payroll	2.55%
Plan fiduciary net position as a percentage of the total pension liability	142.55%

To correspond with the measurement date, the amounts presented were determined as of June 30 of the prior fiscal year.

**Tennessee Board of Regents**  
**Volunteer State Community College**  
**Required Supplementary Information**  
**Schedule of Volunteer State Community College's Contributions**  
**Closed State and Higher Education Employee Pension Plan Within TCRS**

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	Contractually Determined Contributions	Contributions in Relation to Contractually Determined Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2016	\$1,674,636.15	\$1,674,636.15	\$ -	\$11,141,960.68	15.03%
2015	1,705,245.03	1,705,245.03	-	11,345,600.00	15.03%
2014	1,787,190.51	1,787,190.51	-	11,890,812.33	15.03%
2013	1,636,407.02	1,636,407.02	-	10,887,604.92	15.03%
2012	1,587,464.11	1,587,464.11	-	10,646,975.92	14.91%
2011	1,462,125.85	1,462,125.85	-	9,806,343.73	14.91%
2010	1,236,950.59	1,236,950.59	-	9,500,388.56	13.02%
2009	1,240,386.49	1,240,386.49	-	9,526,777.96	13.02%
2008	1,255,307.41	1,255,307.41	-	9,216,647.65	13.62%
2007	1,242,903.18	1,242,903.18	-	9,125,574.09	13.62%

**Tennessee Board of Regents**  
**Volunteer State Community College**  
**Required Supplementary Information**  
**Schedule of Volunteer State Community College's Contributions**  
**State and Higher Education Employee Retirement Plan Within TCRS**

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	<u>2016</u>	<u>2015</u>
Contractually determined contribution	\$ 64,671.56	\$ 18,994.37
Contributions in relation to the contractually determined contribution	64,671.56	18,994.37
<u>Contribution deficiency (excess)</u>	<u>\$ -</u>	<u>\$ -</u>
 Covered payroll	 \$1,671,099.75	 \$ 490,806.51
Contributions as a percentage of covered payroll	3.87%	3.87%

This is a 10-year schedule; however, contributions to this plan began in 2015. Years will be added to this schedule in future years until 10 years of information are available.

**Tennessee Board of Regents  
Volunteer State Community College  
Required Supplementary Information  
OPEB Schedule of Funding Progress**

Actuarial Valuation Date	Plan	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
July 1, 2015	State Employee Group Plan	\$ -	\$4,709,000.00	\$4,709,000.00	0%	\$22,148,975.56	21.3%
July 1, 2013	State Employee Group Plan	\$ -	\$4,405,000.00	\$4,405,000.00	0%	\$20,298,375.74	21.7%
July 1, 2011	State Employee Group Plan	\$ -	\$5,506,000.00	\$5,506,000.00	0%	\$18,477,102.00	29.8%

The amount reported here for covered payroll relates to the fiscal year in which the valuations were performed.

**Supplementary Information**  
**VOLUNTEER STATE COMMUNITY COLLEGE FOUNDATION**  
**Schedules of Cash Flows - Component Unit**  
**For the Years Ended June 30, 2016, and June 30, 2015**

	Year Ended June 30, 2016	Year Ended June 30, 2015
<b>Cash flows from operating activities</b>		
Gifts and contributions	\$ 250,289.70	\$ 302,940.62
Grants and contracts	-	12,184.16
Payments to suppliers and vendors	(20,105.93)	(33,154.68)
Payments to Volunteer State Community College	(867,538.45)	(848,976.84)
Other receipts	173,368.71	176,517.90
Net cash used for operating activities	(463,985.97)	(390,488.84)
<b>Cash flows from noncapital financing activities</b>		
Private gifts for endowment purposes	33,615.00	29,050.00
Net cash provided by noncapital financing activities	33,615.00	29,050.00
<b>Cash flows from capital and related financing activities</b>		
Capital grants and gifts received	411,555.30	404,935.91
Net cash provided by capital and related financing activities	411,555.30	404,935.91
<b>Cash flows from investing activities</b>		
Proceeds from sales and maturities of investments	576,926.37	916,402.36
Income on investments	111,483.81	99,337.81
Purchases of investments	(311,592.39)	(1,289,327.59)
Net cash provided by (used for) investing activities	376,817.79	(273,587.42)
Net increase (decrease) in cash and cash equivalents	358,002.12	(230,090.35)
Cash and cash equivalents - beginning of year	605,725.32	835,815.67
Cash and cash equivalents - end of year	\$ 963,727.44	\$ 605,725.32
<b>Reconciliation of operating loss to net cash provided used by operating activities:</b>		
Operating loss	\$ (798,611.36)	\$ (720,984.70)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Endowment income per spending plan	(109,334.46)	(100,521.93)
Gifts in-kind	435,599.59	433,847.64
Change in assets and liabilities:		
Receivables	(2,830.30)	990.67
Prepaid items	200.00	(200.00)
Other assets	(206.25)	(232.50)
Accounts payable	4,769.10	(2,182.10)
Accrued liabilities	-	(40.00)
Unearned revenues	17,700.00	(12,021.55)
Other	(11,272.29)	10,855.63
Net cash used by operating activities	\$ (463,985.97)	\$ (390,488.84)
<b>Noncash investing, capital, and financing activities</b>		
Unrealized gains (losses) on investments	\$ (4,753.35)	\$ 11,030.54



STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT  
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**Independent Auditor's Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance With  
*Government Auditing Standards***

The Honorable Bill Haslam, Governor  
Members of the General Assembly  
The Honorable Flora W. Tydings, Chancellor  
Dr. Jerry Faulkner, President

We have audited the financial statements of Volunteer State Community College, an institution of the State University and Community College System of Tennessee, which is a component unit of the State of Tennessee, and its discretely presented component unit as of and for the years ended June 30, 2016, and June 30, 2015, and the related notes to the financial statements, which collectively comprise the college's basic financial statements, and have issued our report thereon dated September 22, 2017. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the college's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the college's internal control. Accordingly, we do not express an opinion on the effectiveness of the college's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; therefore, material weaknesses or significant

deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies that we consider to be material weaknesses. We did identify certain deficiencies in internal control, as described below, that we consider to be significant deficiencies.

- The college used an incorrect term start date to calculate Title IV funds earned by students who withdrew in the spring 2016 semester, resulting in some unearned funds not being returned to the federal government.
- As noted in the prior audit, Volunteer State Community College did not provide adequate internal controls in two areas.

These deficiencies are described in the Findings and Recommendations section of this report.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the college's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We did, however, note certain immaterial instances of noncompliance that we have included in the Findings and Recommendations section of this report.

## **Volunteer State Community College's Response to Findings**

The college's responses to the findings identified in our audit are included in the Findings and Recommendations section of this report. The college's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on them.

## **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Deborah V. Loveless, CPA

Director

September 22, 2017

## **Findings and Recommendations**

### **1. The college used an incorrect term start date to calculate Title IV funds earned by students who withdrew in the spring 2016 semester, resulting in some unearned funds not being returned to the federal government**

#### **Condition**

For 5 of 13 students (38%) selected who withdrew from the college, we determined that the college did not calculate the correct amount of funds that should be returned to the federal government. For the 5 students, the school returned \$437 less than the amount required. The \$437 is federal questioned costs.

#### **Criteria**

Title 34, *Code of Federal Regulations* (CFR), Part 668, Section 22(a)(1), states, “When a recipient of the title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of title IV grant or loan assistance that the student earned as of the student’s withdrawal date.”

Title 34, CFR, Part 668, Section 22(f)(1), states,

the percentage of the payment period or period of enrollment completed is determined—

- (i) In the case of a program that is measured in credit hours, by dividing the total number of calendar days in the payment period or period of enrollment into the number of calendar days completed in that period as of the student’s withdrawal date.

#### **Cause**

Management used January 9, 2016, as the term start date instead of January 19, 2016, in the calculation of the percentage of the semester the student completed. This resulted in a higher calculated percentage of days completed, which overstated the amount of funds the student earned and understated the amount that should be returned to the federal government.

After we brought this issue to the attention of the Director of Financial Aid, the Director, using the correct term start date, recalculated the amounts to be returned to the federal government for all students and determined that a total of \$44,420 should be returned. The Director stated that the funds were returned to the federal government.

#### **Effect**

The college did not return all unearned student funds to the federal government, and the related student accounts were not charged for all unearned funds. Since many of these students will likely

not have a future relationship with the school, collecting the additional funds owed by the students may be difficult.

### **Recommendation**

When processing returns in the future, the Director of Financial Aid should review staff's work to ensure that the correct parameters are used in calculating the return of funds.

### **Management's Comment**

We concur. Management agrees that it is necessary for the Director of Financial Aid to establish procedures for review of the calculation of funds to be returned to the federal government for students who received Title IV funds and have officially or unofficially withdrawn. Quality control measures will establish a review by a member of Financial Aid management prior to the beginning of the award year, as well as subsequent monthly reviews. These actions will be implemented by November 30, 2017.

## **2. As noted in the prior audit, Volunteer State Community College did not provide adequate internal controls in two areas**

Volunteer State Community College did not design and monitor effective internal controls in two areas. For both of these areas, we found internal control deficiencies related to one of the college's systems. We are reporting internal control deficiencies that were repeated from the prior audit because corrective action was not sufficient. For one area, college management took corrective action in May 2015 and is continuing to evaluate possible actions to fully correct the deficiencies; however, management has yet to implement further corrective action. Management has updated their controls for the second area but has not implemented effective corrective action.

Ineffective implementation of internal controls increases the likelihood of errors, data loss, and unauthorized access to college information. The details of this finding are confidential pursuant to Section 10-7-504(i), *Tennessee Code Annotated*. We provided the college with detailed information regarding the specific conditions we identified, as well as the related criteria, causes, and our specific recommendations for improvement.

### **Recommendation**

Management should ensure that these conditions are remedied by promptly developing and consistently implementing internal controls in these areas. Management should implement effective controls to ensure compliance with applicable requirements; assign staff to be responsible for ongoing monitoring of the risks and mitigating controls; and take action if deficiencies occur.

### **Management's Comment**

We concur. Management will review and establish additional controls to address the identified findings.

## **Observation and Comment**

### **Colleges of Applied Technology**

Volunteer State Community College serves as the lead institution under agreements with the Tennessee College of Applied Technology at Hartsvillle and the Tennessee College of Applied Technology at Livingston. Under these agreements, Volunteer State Community College performs the accounting and reporting functions for the colleges. The chief administrative officer of each college is the Director, who is assisted and advised by members of the faculty and administrative staff. Each Director is responsible to the Chancellor of the Tennessee Board of Regents.